



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

Audit Report

The State of Illinois Weatherization Assistance Program



OAS-RA-11-01

October 2010



Department of Energy

Washington, DC 20585

October 14, 2010

MEMORANDUM FOR THE SECRETARY

FROM: 
Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Audit Report on "The State of Illinois
Weatherization Assistance Program"

BACKGROUND

The Department of Energy's Weatherization Assistance Program received \$5 billion under the American Recovery and Reinvestment Act of 2009 (Recovery Act) to improve the energy efficiency of single-family, multi-family, and mobile homes owned or occupied by individuals or families with low incomes. Of the \$5 billion, the Department awarded the State of Illinois a 3-year Weatherization Assistance Program grant of \$242 million, a significant increase over the \$24 million authorized in Program Year 2009. Illinois planned to use its Recovery Act funding to weatherize about 27,000 homes.

In Illinois, the Department of Commerce and Economic Opportunity is responsible for administering the Recovery Act grant through 35 local agencies. The local agencies determine applicant eligibility; perform initial home assessments to determine appropriate weatherization measures needed; assign contractors to weatherize homes; and, conduct final inspections on completed homes. The Community and Economic Development Association of Cook County, Inc. (CEDA), one of the largest local agencies nationwide participating in the Weatherization Program, was expected to receive approximately \$91 million over 3 years to weatherize an estimated 12,500 homes – almost half of Illinois' total.

In December 2009, we issued a Management Alert on *The Department's Monitoring of the Weatherization Assistance Program in the State of Illinois* (OAS-RA-10-02), in which we raised concerns regarding inadequate monitoring and substandard contractor workmanship. Based on these concerns, we extended test work, focusing on the Illinois Weatherization Program and its largest local agency, CEDA. This report provides the results of our review.

OBSERVATIONS AND CONCLUSIONS

Our testing revealed substandard performance in weatherization workmanship, initial home assessments, and contractor billing. These problems were of such significance that they put the integrity of the entire Program at risk, although Illinois and CEDA asserted during the audit that they were in the process of improving performance. Specifically, of the 15 homes we visited in conjunction with CEDA inspectors:

- Twelve homes failed final inspection because of substandard workmanship. For example, improperly performed heating system tune-ups allowed the heating systems to either improperly fire or emit carbon monoxide at higher than acceptable levels;
- Eight homes had initial assessments that called for inappropriate weatherization measures or the assessments overlooked key measures needed to make the homes more energy efficient. To cite one example, a CEDA inspector identified a home where an assessor had inappropriately called for attic insulation when sizeable leaks in the roof would have significantly reduced the effectiveness of the insulation; and,
- For 10 homes, contractors billed for labor charges that had not been incurred and for materials that had not been installed. Billing issues appeared to be pervasive, since 7 of the 10 contractors in our sample were cited by CEDA for erroneous invoicing.

We also determined that CEDA had not always ensured that contractors' material costs were reasonable. This wasteful practice could ultimately reduce the number of homes of low income families that can be weatherized with the limited Recovery Act funds available. Additionally, CEDA approved contractors' weatherization material costs that, in some cases, far exceeded the price an individual consumer would pay for the same materials. The importance of managing these costs cannot be overstated since CEDA expects to spend about \$28 million for weatherization materials over the next 3 years.

These Program execution issues resulted from a combination of problems including internal control weaknesses, inadequate final inspections, ineffective follow-up on inspection issues, and insufficient training. In particular:

- When we were present, CEDA inspectors conducted thorough inspections. However, in reviewing CEDA's past performance, we found that this had not always been the case. Based on our review of the State's monitoring conducted from October 2008 to February 2010, we calculated a 62 percent final inspection error rate on those homes that the State had re-inspected;
- Although CEDA had required poorly performing contractors to submit proposed corrective actions, it had not properly followed-up to ensure improvements had been made. Further, even though the State had consistently cited CEDA inspectors for failing to identify significant workmanship deficiencies, Illinois had not adequately followed-up to ensure that CEDA improved its overall inspection capabilities; and,
- While CEDA and the State provided numerous technical weatherization courses to CEDA employees and contractors, the State had not completed its overall training plan and still needed to conduct a one-week contractor certification class.

Substandard weatherization work can pose health and safety risks to occupants and area residents, hinder production, and increase Program costs. Additionally, payment of excessive materials costs to contractors reduced the amount of funding available to: (i) weatherize homes; and, (ii) create jobs. Collectively these problems have a direct impact on the likelihood that Recovery Act and Program goals of stimulating the economy, creating jobs, reducing energy demand and improving the lives of thousands of low income families will be achieved.

As noted in the report and as a result of our audit, CEDA reported that it has made several changes to strengthen its program. Because the claimed improvements were made subsequent to our audit, we were unable to evaluate the adequacy of the improvements and the impact they may have on CEDA's Weatherization Program.

We made a number of recommendations designed to help resolve problems at the Department, State and CEDA levels.

MANAGEMENT REACTION

The Department, State of Illinois, and CEDA provided extensive responses to our draft audit report. They expressed concerns with specific findings and conclusions. Although the Department stated that implementation improvements had been made to the Weatherization Program by the State and CEDA, it acknowledged that significant work still needs to be done.

The State asserted that it had seen continual improvement in CEDA quality. Concerning excessive materials costs, the State pointed out that CEDA had renegotiated its material and labor prices. The State also described the extensive training that it had provided to assessors, final inspectors and contractors.

CEDA officials stated that they had implemented programs and processes to improve the quality of work performed and to address excessive materials costs. CEDA noted that re-inspection failure rates had declined. CEDA officials also commented that our sample size of 15 homes was insignificant and that our materials cost analysis may be skewed by the fact that contractors may use higher quality materials than those in our sample.

As discussed in the body of our report, the State and CEDA asserted that they have made improvements to their Weatherization Programs. Yet despite these efforts, we found that workmanship quality issues continued to exist. Further, regarding CEDA's comments about our sample size, we concluded that the results of our sample were reliable since they were corroborated by and consistent with work done by the State of Illinois. Finally, CEDA's assertion that contractors used higher quality materials than we used to compare materials prices was not persuasive. CEDA was unable to provide any evidence to support its comment.

Management's comments and our response are discussed in more detail in the body of our report. Management's comments are included in Appendix 3 in their entirety.

Attachment

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

REPORT ON THE STATE OF ILLINOIS WEATHERIZATION ASSISTANCE PROGRAM

TABLE OF CONTENTS

Illinois and CEDA Weatherization Programs

Details of Finding	1
Recommendations and Comments.....	10

Appendices

1. Objective, Scope, and Methodology	13
2. Prior Reports.....	15
3. Management Comments.....	16

THE STATE OF ILLINOIS WEATHERIZATION ASSISTANCE PROGRAM

Illinois and CEDA Weatherization Programs

The State of Illinois and the Community and Economic Development Association of Cook County, Inc. (CEDA), Weatherization Programs experienced substandard performance in the areas of workmanship, initial home assessments and contractor billing for labor costs not incurred and materials that had not been installed. CEDA also had not always ensured that contractors' materials costs were reasonable, a practice that could ultimately reduce the number of homes of low income families that can be weatherized with available American Recovery and Reinvestment Act of 2009 (Recovery Act) monies. As a result of our audit, CEDA reported that it has made several changes to strengthen its program. Because the claimed improvements were made subsequent to our audit, we were unable to evaluate the adequacy of the improvements and the impact they may have on CEDA's Weatherization Program.

Substandard Weatherization Efforts

We found that 14 of the 15 homes we visited in conjunction with CEDA inspectors failed final inspection because of poor workmanship and/or inadequate initial assessments. Equally troubling, we noted that contractors weatherizing the homes we visited had, in some instances, improperly billed for the work performed. Federal and State regulations require CEDA to conduct final inspections. State officials informed us that final inspections are performed before contractors are paid. In particular, we noted:

- **Poor Workmanship:** At 12 of the homes, CEDA inspectors found substandard work that could have, in some cases, resulted in significant property damage or injury to the homeowners. In one home, 11 of the 14 items that the contractor should have installed or repaired to improve energy efficiency failed inspection. In another instance, while accompanying inspectors, we found that a contractor had not corrected, as required by the home's work order, improperly installed kitchen exhaust ductwork, a potential fire hazard. Although CEDA and certain State officials disagreed that the ductwork problem posed a fire hazard, State building code officials we consulted confirmed the concern. Further, we observed a furnace intake vent pipe that had been improperly installed and found that five of the six tune-ups to heating systems had not been properly performed, allowing the heating systems to either

improperly fire or emit carbon monoxide at higher than acceptable levels. Further, CEDA's own inspectors cited contractors for improper insulation of attics, band joists, and walls. In all, 8 of the 10 contractors that had weatherized homes included in our evaluation were cited for poor workmanship.

Our observations of poor workmanship were consistent with State monitoring reports that identified widespread deficiencies in weatherization work. State officials found issues such as the lack of pressure release pipes on water heaters, doors improperly hung, incomplete items on work orders, and heat barriers around chimneys that had not been installed, causing fire hazards. State officials also found instances where a furnace had not been vented properly; a shut-off valve had not been installed on a gas stove; and, carbon monoxide detectors, smoke alarms and fire extinguishers had not been installed as planned. In one home, a contractor had been paid for removing siding to insert insulation, but the contractor had actually taken a short cut, drilling holes through the existing siding. A July 2010 State monitoring report cited a significant number of gas leaks in single-family homes weatherized by CEDA contractors. State officials reported that the number of gas leaks verified during the monitoring review was "alarming."

- **Inadequate Initial Assessments:** At eight of the homes, CEDA inspectors found that assessors from within its organization had either called for inappropriate measures or had overlooked key weatherization measures needed to make the homes more energy efficient. In one home, for example, an inspection report noted that an assessor had inappropriately called for attic insulation when sizeable leaks in the roof would have reduced the effectiveness of the insulation. In addition, we found homes where inspectors cited assessors for failing to identify an open sump pump, leaking water lines, and a skylight that had not been properly insulated. CEDA acknowledged that, due to hiring nearly 60 new field personnel who were needed for the increased level of weatherization work funded by the Recovery Act, it had experienced "an inevitable level of inadequate assessments that were not corrected or were incompletely reviewed before the jobs were assigned to contractors."
- **Erroneous Billing:** At 10 of the 15 homes we visited, CEDA inspectors found that contractors had billed a

total of about \$3,300 for labor and materials that had not been installed. For example, a contractor had installed a 125,000 BTU boiler, but had billed CEDA for a 200,000 BTU boiler costing an estimated \$1,000 more.

Additionally, a contractor had installed one carbon monoxide detector, but had billed CEDA for 3; another contractor had installed 12 light bulbs, but had billed CEDA for 20; and, yet another had failed to install a gas shut-off valve, but had billed for the work. In addition, a contractor had billed for almost four times the amount of drywall actually installed. Billing issues appeared to be pervasive, since 7 of the 10 contractors in our sample were cited by CEDA for erroneous invoicing.

According to CEDA officials, inspectors had identified the erroneous billings during the final inspection, corrected all errors at that time, and no overpayments occurred as a result of the erroneous billings. However, during our review of 298 State re-inspections conducted between October 2008 and February 2010, we identified more than 20 instances in which contractors had submitted invoices and received payment for work not performed. For example, in two separate cases, CEDA had paid contractors to install a pump on a furnace, even though the work had not been done. The State had also identified instances in which contractors had been paid, but: (i) had only installed one of two chimney liners; and, (ii) had not installed crawlspace wall insulation and a vapor barrier as called for in the work order. As a result of their re-inspection findings, the State had repeatedly recommended that CEDA closely monitor contractors' work to ensure the accuracy of their billings. Since the State is only required to re-inspect five percent of CEDA's completed homes, its findings suggest a serious concern that contractors may have been paid for work that had not been performed.

CEDA officials expressed the belief that most erroneous bills submitted by contractors resulted from the lack of coordination between the contractor field crews and billing operations. They concluded that the lack of coordination led contractors to bill from the original work order without adjusting for changes made when the work was actually performed. CEDA management acknowledged that billing problems may have increased because of the influx of new contractor employees unfamiliar with CEDA's procedures. Specifically, to accommodate the increase in production resulting from the infusion of Recovery Act money, CEDA's pool of contractors

grew from 18 to 60. To its credit, CEDA told us that it plans to modify its procedures and monitor contractor billings on a quarterly basis.

Program Weaknesses

Widespread issues with CEDA's Weatherization Program resulted from a combination of problems including internal control weaknesses, inadequate final inspections, ineffective follow-up on inspection issues, and insufficient training.

- **Quality of Inspections:** When we were present, CEDA inspectors conducted thorough inspections and identified significant workmanship and billing issues. In reviewing past performance of CEDA inspectors, however, we found that this had not always been the case. In fact, prior CEDA inspections had overlooked significant workmanship issues. Based on our review of the State's monitoring conducted from October 2008 to February 2010, we calculated a 62 percent final inspection error rate on only those homes that the State had re-inspected. During this period, the State had re-inspected 298 single-family and multi-family homes originally passed by CEDA inspectors and rated 185 of the homes as either unacceptable or improvement needed, requiring CEDA to return to the homes and remedy the deficiencies found.

In its July 2010 monitoring report, the State rated 38 of the 238 single-family and multi-family units inspected (16 percent) as either unacceptable or in need of improvement. When we analyzed the State's underlying data, however, we found that 38 of 57, or 67 percent, of single-family homes were rated either unacceptable or in need of improvement. In all 38 cases, the State required CEDA to return to the home to rectify problems identified.

Further, the report cited an "alarming" number of gas leaks at the single-family homes and noted that the weatherization process calls for an assessor, contractor, and final inspector to review a home to determine needs; and, in each aforementioned phase, the detection of gas leaks went unnoticed. State officials stated that the failure to detect gas leaks may in part be attributed to overburdened inspectors. Lacking a strong inspection program, CEDA is at high risk of accepting substandard contractor workmanship. In our view, continued excessive failure rates are inconsistent with the standards

of accountability and transparency established for the Recovery Act and could result in potentially dangerous conditions if not identified and corrected.

- **CEDA's Follow-up on Deficiencies:** Although CEDA had required poorly performing contractors to submit proposed corrective actions, it had not properly followed-up to ensure improvements had actually been made. Planned corrective action items included, for example, improved communication between assessors, final inspectors, and contractors; better detailed information on work orders; and, more oversight of new employees. However, CEDA did not have a process in place to ensure that all items in the plans had been addressed and that the quality of the workmanship had improved. This is distressing because one of the eight contractors in our sample that was cited for poor workmanship had been under a prior corrective action plan that had been closed in March 2010. When we asked officials in two of CEDA's departments, Quality Assurance and Contractor Relations, why they had not followed up, we found that there was confusion as to who was responsible for follow-up. In addition to the lack of follow-up on individual corrective action plans, we noted that CEDA had only evaluated the performance of contractors once a year. Given the substantial increase in the number of homes a contractor may weatherize each month under the Recovery Act, we believe that continual review of poorly performing contractors and inspection of their work is essential. In response to a preliminary draft of this report, CEDA informed us that its contractor evaluation process has now been significantly revamped and will include quarterly evaluations on all contractors and monthly for those under a corrective action plan.
- **The State's Follow-Up on Deficiencies:** Illinois had also not ensured that widespread workmanship and inspection deficiencies were adequately addressed. Even though the State had consistently cited CEDA inspectors for failing to identify significant workmanship deficiencies, it had not required the agency to improve its overall inspection capabilities. Instead, the State required CEDA to address deficiencies on a case-by-case basis. Further, because of staffing deficiencies, the State had not analyzed its own data to identify contractors, inspectors, and assessors that had

repeatedly failed to perform and to identify common weatherization problems.

In our December 2009 Management Alert on *The Department's Monitoring of the Weatherization Assistance Program in the State of Illinois* (OAS-RA-10-02), we recommended that the Department of Energy (Department) ensure that the State develop and implement a system to aggregate and track major findings from local agency monitoring visits to assess overall performance. State officials told us that as of July 28, 2010, they had completed, but not yet implemented, a tracking system to analyze monitoring visit results and to identify contractors, final inspectors and assessors who repeatedly fail to perform. State officials indicated that delays in completion and implementation of the tracking system were due to staffing constraints.

- **Training:** While CEDA and the State have provided numerous technical weatherization courses to CEDA employees and contractors, the State had not completed its overall plan and still needs to conduct a one-week certification class, now scheduled to begin in October 2010. In light of the substandard workmanship noted above, implementing the certification program is essential for improving contractor performance. A State official informed us that training had been delayed by curriculum development and staffing issues at the local college providing the training.

CEDA officials expressed their view that the observations in our audit are the result of the extraordinary expansion of the Weatherization Program under the Recovery Act. Specifically, CEDA reported that production tripled in Program Year 2010 and another 50 percent increase is expected in Program Year 2011. CEDA also stated that its staff grew from 53 to 149 individuals over a period of 9 months. CEDA also reported that at the time of our visit, "CEDA was at the exact epicenter of its own perfect storm; newly trained but inexperienced contractors and CEDA personnel were scrambling to produce assessments and completed jobs. CEDA's Training and Quality Departments were straining to keep up with this influx of new weatherization participants, and State resources for assistance were scarce as well."

After we surfaced issues described in this report, the Department asked the State to notify CEDA of its intent to terminate the agency's Weatherization Program if improvements were not promptly made. In response, the State issued an April 2010, "Special Conditions" letter to CEDA discussing the agency's lack of productivity and poor workmanship issues. The letter established expectations regarding productivity increases and quality improvements. To address workmanship issues, the State assigned two full time monitors to oversee the local agency. We were informed that because of improvements in productivity and quality subsequent to the issuance of the Special Conditions, the State had not terminated CEDA's Program.

Excessive Materials Costs

CEDA approved contractors' weatherization materials costs that, in some cases, far exceeded the price an individual consumer would pay for the same materials. In accordance with State policy, contractors bill for materials at prices established by CEDA. We compared the prices of seven commonly used weatherization materials to those charged by two local retailers and found that all seven were higher. For example, CEDA's published prices for smoke alarms, fire extinguishers, and thermostats ranged from about 120 percent to 200 percent over the average retail price. CEDA's price for compact florescent bulbs was almost three times the average retail price. The price in CEDA's catalog for one 60 watt compact fluorescent lamp was \$3.50, while average retail was \$1.33. These charges were for the materials only – labor charges for installation of these items were identified separately.

We understand that carrying costs, taxes, and overhead incurred by contractors may affect materials pricing. However, in our opinion, prices of 120 percent to 200 percent of retail appear excessive. Neither CEDA nor State officials could justify such large mark-ups on materials. Officials indicated that mark-ups ranging from 20 percent to 50 percent would be reasonable; however, neither the State nor CEDA maintained documentation to support such mark-ups. Even allowing for a 50 percent mark-up on smoke alarms, fire extinguishers, and thermostats, prices were still dramatically above retail.

Materials Pricing

CEDA had not complied with the State's policy for establishing competitively negotiated materials prices. The policy requires local agencies to solicit and average materials costs proposed

by contractors and then, after validating those costs against wholesale and manufacturer's costs, negotiate final prices. Local agencies are also required to maintain documentation, including vendor name, address, and price quoted per item to support final pricing decisions. CEDA officials told us that for about 500 products used in weatherizing homes, they had averaged materials costs solicited from local contractors and then benchmarked them against retailers. However, CEDA could not provide documentation supporting this assertion. Further, State officials reported that they had reviewed CEDA's overall process for determining materials costs in its price catalog by evaluating reasonableness through randomly checking selected materials costs; however, they had not documented their findings and conclusions and could not provide supporting documentation.

CEDA and State officials acknowledged that the catalog prices needed to be revised to better reflect the market and indicated that they would make such revisions in the summer of 2010 during the next contract negotiation period and every year thereafter. CEDA officials also indicated that they believed that about 100 of the 500 products in their catalog may actually have been underpriced. Because of the lack of documentation, we were unable to verify these assertions or calculate amounts over or undercharged. Overpaying contractors for materials not only violates basic Federal grant requirements to ensure that costs are reasonable, but will result in enriching contractors at the expense of program participants. The importance of managing materials costs cannot be overstated, given that CEDA expects to exceed \$28 million in materials costs over the next 3 years. However, at a minimum, such practices, in the end, reduce the number of homes that can be weatherized with available funding and decrease the energy efficiency savings realized.

**Follow-Up on December
December 2009
Management Alert**

In our December 2009 *Management Alert*, we recommended that the Department's Office of Energy Efficiency and Renewable Energy complete required state-level, on-site monitoring. Subsequent to our *Management Alert*, the Department conducted two on-site monitoring visits resulting in reports issued to the State in February and May 2010. Additionally, the *Management Alert* made a recommendation that the Department ensure that the states take specific actions to manage their programs. The following table provides a status of those actions that the State of Illinois reported it had taken to resolve the reported weaknesses.

Status of December 2009 *Management Alert* Recommendations

Recommendation	Status
Conduct annual on-site monitoring of the Weatherization Assistance Program at each local agency in accordance with program requirements.	The State completed annual on-site monitoring and implemented a tracking mechanism to ensure completion of monitoring at each local agency in accordance with program requirements.
Meet the Department's minimum five percent requirement for inspecting homes weatherized by each local agency.	The State met the minimum five percent requirement for inspecting homes weatherized by each local agency and implemented a tracking mechanism to ensure that the minimum five percent requirement continues to be met.
Develop and implement a system to aggregate and track major findings from local agency monitoring visits to assess overall performance.	The State had completed, but not yet implemented, its system to aggregate and track major findings from local agencies' monitoring visits.
Determine whether local agency inspectors and weatherization contractors have received appropriate training, and where appropriate, certification.	The State had not yet implemented this recommendation. The State currently relies on local agencies to determine whether inspectors and weatherization contractors have the appropriate training and certification. The State plans to develop a database to ensure its inspectors and contractors have completed the State required training.
Understand requirements for inspecting weatherized units funded by the Department.	The State has demonstrated its understanding of the requirements for inspecting weatherized units funded by the Department.

These efforts are positive first steps. Yet, as evidenced by our findings, significant problems at both the CEDA and Illinois levels continue to exist. A comprehensive series of effective actions will be required if an acceptable level of performance is to be achieved.

Impacts of Poor Quality Work and Path Forward

Substandard weatherization work can pose health and safety risks to occupants and area residents, hinder production, increase costs, and dramatically reduce the likelihood that CEDA's Weatherization Program will achieve its goal to weatherize an estimated 12,500 homes by the end of the grant period. Additionally, payment of excessive materials costs to contractors reduces the amount of funding available to weatherize homes of individuals and families with low income and reduces the amount of funding for direct job creation. Individually and collectively these problems have the practical effect of limiting the achievement of overall Program goals. While the State has taken a number of actions designed to correct previously observed weaknesses, lingering and significant problems remain. Additional action is necessary to preserve the integrity of the Weatherization Program and to ensure that deserving households receive the services to which they are entitled.

RECOMMENDATIONS

To address the significant deficiencies we observed during our audit, we recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy:

1. Take immediate action to ensure that the State of Illinois' Weatherization Program:
 - a. Analyzes its monitoring reports to identify and recommend correction of systemic problems and to ensure that those contractors, inspectors, and assessors who repeatedly under-perform, address known weaknesses;
 - b. Determines that the cost of materials is reasonable and supported with required documentation and establishes guidance regarding the percentage of mark-up on materials for tax, carrying cost, and overhead;
 - c. Completes the implementation of the proposed State-wide weatherization training and certification for contractors and crew leads; and,
 - d. As appropriate, takes action to suspend funding or impose other available sanctions to help achieve compliance with program quality requirements.
2. Take action to ensure that the State of Illinois requires CEDA to:
 - a. Improve its initial assessment and final inspection processes by examining completed and final inspected homes, analyzing results, and taking corrective action on any deficiencies noted; and,
 - b. Implement a formal follow-up process to ensure that corrective action plans addressing needed contractor improvements have been implemented.

MANAGEMENT AND AUDITOR COMMENTS

The Department, State of Illinois, and CEDA provided responses to our draft audit report which are included in their entirety in Appendix 3. The responses expressed concerns with specific findings and conclusions. After reviewing the comments, we made appropriate changes to our report to

address these concerns and clarify our findings and conclusions. Below is a summary of their key comments and our response to their comments.

Management Comments (Department)

The Department concurred with and is holding the State accountable for addressing each of the report's recommendations. The Department committed to ensuring that every grantee under the Weatherization Program performs high quality work that meets the goals of the Recovery Act. Although the Department stated that implementation improvements had been made to the Weatherization Program by the State and CEDA, it also acknowledged that significant work still needs to be done.

Auditor Response to Department Comments

The Department's comments are responsive to our recommendations.

Management Comments (State)

In its response to our audit, Illinois officials noted that in April 2010, they had placed Special Conditions on CEDA's Weatherization Assistance Program and had assigned two full-time monitoring staff to CEDA. The State asserted that although CEDA had workmanship quality issues during the time frame of our audit, the State had seen continual improvement in quality. Specifically, State officials citing inspection results reported by CEDA noted that during the weeks of March 26, 2010, June 25, 2010, and August 30, 2010, failure rates were 42 percent, 23 percent, and 16 percent, respectively. Concerning excessive materials costs, the State pointed out that CEDA had renegotiated its materials and labor prices and that the State is in the process of obtaining quotes for commonly used heating systems and related components and is researching appropriate contractor price mark-up for materials that are supplied by the contractor. The State also described the extensive training that it has provided to assessors, final inspectors and contractors and indicated that a Community College-based contractor training course is scheduled to begin in October 2010.

Auditor Response to State's Comments

The State has taken actions to address issues at CEDA regarding poor workmanship and excessive materials costs, including the Special Conditions that it had placed on CEDA in April 2010. However, as discussed in the body of the report, we believe that workmanship issues on single family homes remain. The State's response did not address whether it concurred with our recommendations and whether it would implement those recommendations.

Management Comments (CEDA)

CEDA officials acknowledged that improvement was needed and agreed with our recommendations. Officials stated that they had implemented programs and process improvements to address our recommendations regarding the quality of work performed and excessive materials costs. CEDA noted that re-inspection failure rates had declined. While agreeing with our recommendations, officials commented that our sample size of 15 homes was insignificant and that our materials cost analysis may be skewed by the fact that contractors may use higher quality materials than those in our sample.

Auditor Response to CEDA's Comments

CEDA's comments were responsive to our recommendations. CEDA officials plan to take actions to improve the initial assessment and final inspection processes; to ensure implementation of contractor corrective action plans; and to reduce materials costs. However, regarding CEDA's comments on sample size, our findings are corroborated by work done by the State, and we stand by our conclusions regarding the quality of workmanship. Additionally, although CEDA cites a decline in inspection failures, we remain concerned about the quality of work on single family homes.

Concerning excessive materials costs, CEDA officials did not provide evidence to support their assertion that contractors used higher quality of materials than what we had selected for comparison. During our audit, we selected standard products that CEDA officials had acknowledged would be acceptable if used by its contractors.

OBJECTIVE

The objective of the audit was to determine whether the Illinois Department of Commerce and Economic Opportunity and its largest local agency, the Community and Economic Development Association of Cook County, Inc. (CEDA), were efficiently and effectively meeting the goals of the Weatherization Assistance Program and the American Recovery and Reinvestment Act of 2009 (Recovery Act).

SCOPE

The audit was performed between February 2010 and September 2010, at State offices in Springfield, Illinois, and the CEDA Weatherization Assistance Program in Chicago, Illinois.

METHODOLOGY

To accomplish our objective, we:

- Interviewed CEDA and State officials;
- Reviewed laws, regulations, policies and procedures pertaining to the Weatherization Assistance Program;
- Reviewed prior Office of Inspector General and Government Accountability Office reports and other related reports on the Weatherization Assistance Program;
- Accompanied inspectors on final inspections and reviewed past State monitoring reports which evaluated the performance of final inspectors, as well as the performance of the contractors and assessors;
- Evaluated CEDA's cost catalog for reasonableness and benchmarked seven commonly used materials costs with two local retail stores; and,
- Assessed CEDA's internal controls over its Weatherization Program, including its controls over quality assurance and materials cost catalog.

We conducted this performance audit 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. The audit included tests of controls and compliance with laws and regulations necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control

deficiencies that may have existed at the time of our audit. We considered the establishment of Recovery Act performance measures, which included certain aspects of compliance with the Government Performance and Results Act of 1993, as necessary to accomplish the objective. We conducted a limited reliability assessment of computer processed data, and we deemed the data to be sufficiently reliable to achieve our audit objective. We held an exit conference with Department of Energy officials on October 14, 2010.

PRIOR REPORTS

Office of Inspector General

- *Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois (OAS-RA-10-02, December 2009)*. The report identified significant internal control deficiencies in the management of the Weatherization Program in Illinois that required immediate attention. In particular, the Alert revealed: (i) the State of Illinois had not inspected any of the weatherized units completed with the Department of Energy (Department) funds during the State's most recent Fiscal Year at 7 of 35 local agencies; (ii) Illinois did not have a system for aggregating and tracking major findings identified during on-site monitoring visits to local agencies; (iii) a local agency weatherization inspector failed to perform a required test and did not detect a furnace gas leak, which could have resulted in serious injury to the occupants and material damage to the structure; and, 4) the Department's Office of Energy Efficiency and Renewable Energy had not detected inspection problems because it had not performed on-site monitoring/inspection visits of State of Illinois activity at the required frequency.
- *Management Alert on the Department's Monitoring of the Weatherization Assistance Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act (OAS-RA-10-04, February 2010)*. The audit was initiated to provide the Department with an interim status report highlighting factors impacting progress in meeting Weatherization Assistance Program and the American Recovery and Reinvestment Act of 2009 (Recovery Act) goals. The report noted that 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. Corresponding to the low spending rates, grant recipients fell significantly short of goals to weatherize homes.



Department of Energy

Washington, DC 20585
OCT 9 2010

MEMORANDUM FOR: Rickey R. Haas
Deputy Inspector General
for Audit Services
Office of Inspector General

FROM: Kathleen B. Hogan 
Deputy Assistant Secretary
for Energy Efficiency
Energy Efficiency and Renewable Energy

SUBJECT: Response to Recommendations proposed in Office of Inspector General
(OIG) Draft Audit Report on "The State of Illinois Weatherization
Assistance Program"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review the Office of Inspector General's Draft Audit Report "The State of Illinois Weatherization Assistance Program" and concurs with the report's recommendations. The Department of Energy is strongly committed to ensuring that each of the grantees under the Weatherization Program performs high quality work that meets the goals of the Recovery Act. In response to DOE concerns and corrective action plans, the State of Illinois and CEDA have made a number of improvements in how they implement the weatherization program. However, as this report shows, there is significant work still to be done. The Department will continue to aggressively monitor progress in the areas identified by the Inspector General.

As part of the Department's monitoring and oversight process, the state of Illinois will be required to submit written responses providing documentation showing that contractors are providing quality work to local homeowners and detailing the processes in place to ensure taxpayer funding is well spent. This will include describing the steps taken to ensure that underperforming contractors, inspectors and assessors have addressed their weakness, as well as documenting how the state and local agencies determine reasonable costs for weatherization materials.

Additionally, DOE will continue to monitor and report on the implementation of statewide weatherization training and certification programs. For example, in August, CEDA hosted its annual weatherization conference which involved approximately 300 CEDA staff and contractors and focused on implementing newly published work standards, exchanging best practices from the field, and maximizing the quality of customer service.

Finally, the state will be required to report on the imposition of sanctions as needed to help achieve compliance with program quality requirements, along with providing a written update on the corrective actions taken to improve CEDA's processes for initial assessment and final inspection of weatherized homes.



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Appendix 3 (continued)

Additional responses are included below that address the specific recommendations in the draft report:

1. Take immediate action to ensure that the State of Illinois' Weatherization Program:

- a. Analyzes its monitoring reports to identify and recommend correction of systemic problems and to ensure that those contractors, inspectors and assessors who repeatedly under-perform address known weaknesses;

RESPONSE: *EERE will continue to monitor the quality of work performed under the Illinois WAP, and will require a written response from the State describing follow-up and resolution of poor workmanship issues to ensure that those contractors, inspectors, and assessors who repeatedly under-perform address known weaknesses.*
Estimated Completion Date: On-going as part of quarterly reviews

- b. Determines that the cost of materials is reasonable and supported with required documentation and establish guidance regarding the percentage of mark-up on material for tax, carrying cost and overhead;

RESPONSE: *EERE will require the State to provide a written description of their procedure for determining that the cost of materials reported by subgrantees is reasonable and supported with required documentation. This response will include a description of the guidance provided by the State to its subgrantees regarding how costs are determined for materials and overhead, noting any recent updates to policies and procedures as applicable. The Department will also review the state's monitoring reports of its subgrantees to confirm that procedure is being followed.*
Estimated Completion Date: November 2010

- c. Completes the implementation of the proposed State-wide weatherization training and certification for contractors and crew leads; and,

RESPONSE: *EERE will continue to monitor and report on the implementation of statewide weatherization training and certification for contractors and crew leads.*
Training Update: The CEDA Annual WAP Conference was held the week of 8/26/10. This weeklong conference involved approximately 150 CEDA staff and 150 contractor staff, and covered topics such as: teambuilding, maximizing quality of customer service, exchange of best practices from the field, and the implementation of newly published Illinois State 2010 WAP Work Standards
Estimated Completion Date: On-going as part of quarterly reviews

- d. As appropriate, takes action to suspend funding or impose other available sanctions to help achieve compliance with program quality requirements.

RESPONSE: *EERE will require the State to report on the imposition of any type of sanction imposed on a subgrantee as a result of a failure to comply with program*

quality requirements. Generally, when a finding occurs through monitoring and oversight, subgrantees take immediate action to correct the noted deficiency. In those cases where corrective action is inadequate or non-responsive, the state will impose additional sanctions and report those actions to EERE. These sanctions can be in the form of corrective action plans filed by the subgrantee, expanded monitoring requirements by the state, questioning of costs for services delivered but unacceptable, or suspension of project activity while corrective actions are being implemented. The type and scope of any sanction is determined by the findings of the monitoring or oversight and the subgrantee's response to those findings.

Estimated Completion Date: Within 30 days of response to the Report

2. Take action to ensure that the State of Illinois requires CEDA to:

- a. Improve its initial assessment and final inspection process by examining completed and final inspected homes, analyzing results, and taking corrective action on any deficiencies noted; and,

RESPONSE: EERE will require the State to provide a written update on the corrective actions taken to improve CEDA's processes for initial assessment and final inspection of weatherized homes. This report will include a description of corrective actions taken to address any noted deficiencies.

Estimated Completion Date: Within 30 days of response to the Report

- b. Implement a formal follow-up process to ensure that corrective action plans addressing needed contractor improvements have been implemented.

RESPONSE: EERE will require the State to provide a written update on the implementation of a formal follow-up process for corrective action plans at CEDA.

Estimated Completion Date: On-going in response to follow-up/Required



Illinois Department of Commerce & Economic Opportunity

Pat Quinn, Governor • Warren Ribley, Director

September 22, 2010

Gregory H. Friedman
Inspector General
United States Department of Energy
Washington, DC 20585

Dear Mr. Friedman:

This document provides our comments to the U. S. Department of Energy Office of Inspector General Draft Audit Report transmitted via email to my office on September 8, 2010. In this Audit Report, several areas of concern were identified at both the State and local administering agency levels of the Illinois Home Weatherization Assistance Program. The State of Illinois appreciates your office's practice of coordinating with subject of the audit during draft report development. However, we remain concerned about perceptions projected by the report upon the Illinois Home Weatherization Assistance Program. We respectfully submit the following responses to the observations and conclusions noted in the September 8, 2010 report.

BACKGROUND

DOE OIG: "In December 2009, after completing site visits to two Illinois local agencies including the Community and Economic Development Association of Cook County, Inc. (CEDA), we issued a *Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois*. The report discussed our concerns regarding inadequate monitoring and substandard workmanship."

Illinois Comment: The *December 2009 Management Alert* had no direct references to any monitoring issues or substandard contractor workmanship as relates to CEDA.

OBSERVATIONS AND CONCLUSIONS

Substandard Weatherization Efforts

DOE OIG: Page 2 - "We found that 14 of the 15 homes we visited, in conjunction with CEDA inspectors, failed final inspection because of poor workmanship and/or inadequate initial assessments."

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DOE OIG Response
Page 2 of 6

Illinois Comment: The 15 homes cited above were not completed and CEDA inspectors were conducting final inspections to determine if the homes could be passed as Completed units. The fact that CEDA did not pass these homes is proof that their Final Inspection system was in fact working.

Poor Workmanship

DOE OIG: Page 2, Paragraph 1 - The draft report states, "we observed a kitchen exhaust fan that had been vented to the attic rather than to the outside, causing a potential fire hazard..."

Illinois Comment: The pre-existing kitchen exhaust fan (installed by the homeowner, not the IHWAP) while not a potential fire hazard, was noted by the inspector to be corrected before the home could be considered acceptable. Failed final inspection rates have been continually falling since March 2010. The rates have fallen from 42% in March to 16% in August. We attribute this reduction to increased quality control monitoring by State staff and technical assistance training. The training provided to contractors, assessors and inspectors is detailed on page 4 of this letter.

Inadequate Initial Assessments

DOE OIG: Page 2, Paragraph 1 - The draft report states, "At eight of the homes, CEDA inspectors found that assessors from within its organization had either called for inappropriate measures or had overlooked key weatherization measures needed to make their homes more energy efficient."

Illinois Comment: It should be pointed out that the CEDA inspectors were in fact acting as an appropriate "check and balance" in order to maintain a good quality of weatherization assessment and work.

Erroneous Billing

DOE OIG: Page 2, Paragraph 3 - At 10 of the 15 homes we visited, CEDA inspectors found that contractors had billed a total of about \$3,300 for labor and materials that had not been installed."

Illinois Comment: It should be pointed out that the CEDA inspectors identified the billing problems and corrected them before any overpayments occurred. Since none of these erroneous bills were actually paid by CEDA, we request that this section be removed from the report. If it remains, it will give the average reader the impression that CEDA improperly paid for labor and materials that were not received.

DOE OIG Response
Page 3 of 6

Program Weaknesses

Quality of Inspections

DOE OIG: Page 3, Paragraph 4 - "When we were present, CEDA inspectors conducted thorough inspections and identified significant workmanship and billing issues. In reviewing past performance of CEDA inspectors, however, we found that this had not always been the case."

Illinois Comment: CEDA and their contractors have improved their overall quality of work. Some examples of this improvement regarding CEDA's failed final inspection rate are: week of March 26 – 42% failed; week of May 21—32% failed; week of June 25 – 23% failed; week of August 30 – 16% failed. CEDA's final inspection process is working well, and the Office of Energy Assistance will continue to monitor this improving situation.

DOE OIG: Page 3, Paragraph 4 - "Based on our review of the State's monitoring reports from October 2008 to March 2010, we calculated a 59 percent final inspection error rate on single-family homes that the State had re-inspected."

Illinois Comment: DCEO's last large-scale monitoring of CEDA in June 2010 showed a final inspection error rate of 8%. We looked at 239 units total and found 19 units to be unacceptable. We will continue to work with CEDA to improve this error rate. DCEO has assigned two full-time monitoring staff to CEDA on a constant basis.

DOE OIG: Page 4, Paragraph 1 – "Specifically, monitoring data indicated that 38 of 57 single-family homes re-inspected by the State, or 67 percent, failed the State's re-inspection. Additionally, 51 of 181, or 28 percent of multi-family units also failed re-inspection."

Illinois Comment: Of the 57 homes noted above, only 19 failed the State's re-inspection. The other 19 homes were categorized as acceptable, but improvement was needed. The State realizes that these categories can be confusing and will be going to a "Pass or Fail" system in the 2nd quarter of PY2011. In addition, during the June 2010 DCEO monitoring visit, a state weatherization monitor failed a 51-unit multifamily building due to an improperly placed natural gas shut off valve to a boiler, even though all other work on the building was acceptable. The state monitor noted that the boiler's gas valve was placed too high to reach. As a result, all 51 units were failed. CEDA appealed this decision in August 2010, citing that in fact the gas valve was for a water heater and not the boiler, and was properly placed. On September 9, 2010, a State Weatherization Supervisor and Weatherization Monitor accompanied CEDA staff to review the building. Upon re-inspection and examination of documentation and photographs (before and after the work), OEA determined that the rating for the building should be changed to "acceptable." The original gas valve was indeed for the water heater and appeared to be approximately 5'4" from the floor.

DOE OIG Response

Page 4 of 6

During our monitoring process, we did find several homes that had minor gas leaks. None of these leaks were a result of any of the weatherization work that was done. We found these leaks in existing piping while conducting a thorough inspection of the dwelling. These problems should have been found at the time of assessment, or final inspection. The State of Illinois takes all gas leaks seriously. As a result, we immediately conducted additional training with all of CEDA's assessors, final inspectors, and contractors on June 12, 2010.

The State's Follow-Up on Deficiencies

DOE OIG: Page 4, Paragraph 3 – "Illinois had also not ensured that widespread workmanship and inspection deficiencies were adequately addressed. Even though the State had consistently cited CEDA inspectors for failing to identify significant workmanship deficiencies, it had not required the agency to improve its overall inspection capabilities. Instead, the State required CEDA to address deficiencies on a case-by-case basis. Further, because of staffing deficiencies, the State had not analyzed its own data to identify contractors, inspectors, and assessors that had repeatedly failed to perform and to identify common weatherization problems."

Illinois Comment: DCEO placed Special Conditions on CEDA's weatherization grants for quality and production and provided final inspection training to CEDA in June and August of 2010. The Special Conditions letter sent to CEDA on April 12, 2010 explicitly stated our concerns regarding their weatherization work quality and low production numbers. The letter states, "Failure to correct the serious problems noted and successfully complete the 2010 Weatherization grants in a satisfactory manner may result in the termination of the four Weatherization grants, thereby requiring the Department to seek another local provider for the Weatherization program in Cook County... DCEO will randomly inspect completed units for quality control purposes and if more than 20% are rated unacceptable, this will result in a failure." The State has completed and implemented a Sharepoint-based monitoring system that now allows staff to identify poorly performing contractors, inspectors, and assessors.

Training

DOE OIG: Page 5, Paragraph 2 – "More than a year into the Recovery Act, the State had not completely implemented its planned weatherization training for owners contracting with CEDA and their crew leads. The training curriculum was intended to address topics such as heat loss and construction fundamentals and to certify contractors for weatherization work."

Illinois Comment: DCEO and CEDA have conducted extensive Weatherization training with assessors, final inspectors and contractors. In calendar year 2010 these individuals have received:

- HVAC training in February
- Assessor and Lead Renovator training in March
- Assessor and Air Sealing training in April
- Assessor and Multi-family training in May

DOE OIG Response
Page 5 of 6

- DCEO Weatherization Standards training (for all groups) in June
- WeatherWorks Catalog training in July
- Weatherization Quality and Best Practices training (for all groups) and Final Inspector training in August
- Air Sealing, Dense-Pack Insulation training and Diagnostic training for four contractors in September

The Community College-based contractor training is scheduled to begin the week of October 4, 2010. The pilot one-week class was held in July of 2010. Instructors from 11 Community Colleges across Illinois were trained during two weeks in mid-August.

In addition, DOE has awarded the state of Illinois two Training Center grants that began this month. In the North, the Weatherization training center will be in Chicago at Wilbur Wright College. The other Training Center will be located in Champaign, Illinois at the University of Illinois, Building Research Center. DOE is convening a Training Center meeting in early October. These two Training Centers will greatly enhance the overall weatherization training methodology and allow us to standardize training opportunities across the state.

Excessive Material Costs

DOE OIG: Page 5, Paragraph 5 – “CEDA approved contractors’ weatherization material costs that, in some cases, far exceeded the price an individual consumer would pay for the same materials. In accordance with State policy, contractors bill for materials at prices established by CEDA. We compared the prices of seven commonly used weatherization materials to those charged by two local retailers and found that all seven were higher.”

Illinois Comment: We understand that the prices that CEDA was paying for their compact fluorescent lights have greatly decreased in the two years since they were last bid at the agency. CEDA has renegotiated their material and labor prices to begin this year’s weatherization program. It was difficult to determine if the types and brands of building materials that the OIG used for comparison were the same types and brands used in the IHWAP. If possible, please forward this information to Randy Bennett, IHWAP Program Manager, Office of Energy Assistance.

DCEO is also in the process of obtaining quotes for commonly used heating systems and related components. We believe this could result in a substantial savings for the program. We are also researching appropriate contractor price mark-up for materials that are supplied by the contractor and not warehoused.

DOE OIG Response
Page 6 of 6

STATUS OF DECEMBER 2009 MANAGEMENT ALERT RECOMMENDATIONS

DOE OIG Recommendation 3: Page 7 - "Develop and implement a system to aggregate and track major findings from local agency monitoring visits to assess overall performance."

DCEO Status: This SharePoint system has been completed and is currently being used by Weatherization staff.

DOE OIG Recommendation 4: Page 7 - "Determine whether local agency inspectors and weatherization contractors have received appropriate training, and where appropriate, certification."

DCEO Status: The State of Illinois has offered a significant amount of training to its Weatherization network. The only remaining item is the (1) week contractor training and certification through 12 of Illinois' Community Colleges. This training is scheduled to start the week of October 4, 2010.

Sincerely,

Larry L. Dawson
Deputy Director

cc: Cathy Zoi, Assistant Secretary for EERE
Jack Lavin, State of Illinois Chief Operating Officer
Warren Ribley, DCEO Director



CEDA Weatherization Comments:

Draft Audit Report on

"The State of Illinois Weatherization Assistance Program"

September 20, 2010

Letter of Transmittal: Thank you for the opportunity to respond to the OIG "Draft Audit Report" and for incorporating some of the comments and changes CEDA recommended earlier in our response to the OIG "Coordination Draft". CEDA's latest comments were prepared within the ten working day requirement following the thirty plus days OIG used to prepare the "Draft Report" after our initial response. We have attached the original CEDA "Comments" and supporting documents to comply with the requirement we restrict our comments to two pages while responding to OIG's detailed ten page Draft. We believe that such restriction limits the possibility of a nuanced and balanced reading by press and policy makers alike. Many will read the full published OIG detailed report, but few will drill deeper to read CEDA's "Attachments".

CEDA General Observations: CEDA requests the inclusion in the Draft of the characterization by OIG of CEDA's cooperation in the inspection process as "excellent". We also request that the inclusion of quotes from CEDA's response to the Coordination Draft be put into proper context as they relate to delays in funding due to Davis Bacon implementation, not as a general comment regarding quality issues.

CEDA was informed by OIG that the description of a kitchen fan improperly venting to the attic as creating a "fire hazard" was confirmed by Illinois State code officials. CEDA is aware that venting kitchen fans directly to attics is not in compliance with certain codes, but would like clarification on which code issues and which code official stated that venting to the attic creates a "fire hazard". We want to address changing the health and safety cost limitations with DCEO to re-vent kitchen fans in all circumstances considering this code reference. OIG also stated that any unchanged observations by OIG indicated disagreement with CEDA's earlier explanations. Without written explanation of why OIG disagreed with CEDA's earlier Comments, it is not possible for CEDA to respond to restatements of the Coordination Draft except by including copies of CEDA's original Comments.

BACKGROUND: The first sentence of the last paragraph implies that OIG's *Management Alert* was a response to CEDA workmanship. That is not the case, and it needs to be clarified that no CEDA homes were referenced in the *Alert*.

OBSERVATIONS AND CONCLUSIONS: What are the "three commonly used materials we tested"? If one is caulk, CEDA has explained it uses a higher grade of caulk than what was tested for pricing at two big box stores. We have upgraded our catalog descriptions to avoid the possibility of a cheaper grade being substituted. If another item is thermostats, CEDA has explained its contractors purchase higher grade and warranted units through HVAC distribution channels. If the third is CFLs, we have adjusted prices downwards. We have also changed our catalog review frequency from a two year interval to every year. The entire paragraph of observations and conclusions takes broad-based swipes at CEDA's quality with no balancing comments about CEDA's changes, although some of these are mentioned deeper into the Draft.

Substandard Weatherization Efforts: These deficiencies were discovered at the time of final inspection, as designed. CEDA acknowledges that assessments and contractor performance during the OIG inspection required improvement and has put in place substantial revisions and improvements to its operating departments.

CEDA previously pointed out that the results of the OIG inspection which found fail items in 14 of 15 homes visited are inconsistent with CEDA and DCEO results and that this sample size is insufficient to provide statistical significance. We have demonstrated that no home furnaces were producing CO in excess of Standards. We disagree that an improperly vented kitchen fan creates a "fire hazard" as thousands are installed and are in place improperly vented into attic spaces. Please provide us with information concerning a furnace intake pipe being improperly installed as this is a new observation.

2.

Drilling and plugging was a formerly approved method of installing sidewall insulation. Although less attractive than the current method of pulling siding before drilling, there is no deleterious effect on the efficiency of the installed insulation. CEDA believes the reference to gas leaks refers to one home where the contractor had returned after

initial Final Inspection and created a very dangerous situation. That contractor has been terminated from CEDA Weatherization. Please provide CEDA with information regarding this comment.

Inadequate Initial Assessments: The home with the roof leaks was returned to after leaks were reported and insulation moved to protect its performance. Unfortunately, CEDA does not have funds available for roof replacement, thus moving the insulation from beneath the leaks was the only viable solution.

The out of context quote in this paragraph should not be included unless reference is also made to the quality improvements CEDA has put in place.

Erroneous Billing: Absolutely no erroneous payments were made to contractors as was previously pointed out.

Quality of Inspections: Closer examination will show that workmanship issues peaked in the fall 2009 to early spring 2010 period, consistent with the highest departmental and contractor stress relating to ramp-up. Since then, as reflected in the most recent AHOD inspection in June, CEDA's fail rate has declined. The June AHOD showed an overall fail rate of 8% which CEDA believes will be even lower after DCEO reviews certain challenges CEDA will make on single-family homes. Please revise this paragraph given the newly supplied data. Further, following earlier AHODs, a number of job fails were challenged by CEDA and those challenges were supported by DCEO. These challenges were not reflected in the statistics cited by OIG but will result in a lower fail rate than reported.

CEDA's Follow-up on Deficiencies: As reported, CEDA has significantly revamped its contractor evaluation process. CEDA is also reinstating the CEDA Contractor Council, charged with quality and process improvements for Weatherization. Participants will be notified and quarterly meetings will begin before the end of October. The Quality Department will also review all State fails with the assessors, contractors, and final inspectors assigned to the failed job.

Training: CEDA has implemented an extensive contractor training initiative and has recently supplied DCEO with a complete list of contractor trainings held and planned. As stated, the quote in the following paragraph should be put into the context of delayed availability of ARRA funding and extraordinary pressure to ramp-up production. CEDA has improved production with an accompanying improvement in quality. Indeed, they are to a degree interdependent. We realize we need to make further progress and we are implementing plans and programs to meet the commitment of the ARRA.

Excessive Material Costs: All of the items mentioned in the OIG Draft were addressed and changed, if appropriate, in CEDA's recent contractor procurement process which has occurred every two years. CEDA will open catalog negotiations each year moving forward to better reflect changing market pricing. Certain electronic items have traced a continual downward path for years, such as CFLs and digital setback thermostats. Other construction materials behave as commodities and will rise and fall based on construction activity and/or supply disruptions for raw materials. OIG states "These charges were for materials only-labor charges for installation of these items were identified separately". This sentence leaves the impression that labor charges are excessive as well, when no such evidence is presented or even discussed. Please eliminate this sentence in its entirety.

Materials Pricing: CEDA has been unable to locate certain supporting documentation relating to past catalog negotiations. However, we believe and have been advised by DCEO historically that we have been in compliance with State Policy. We did supply documentation concerning furnace and boiler pricing indicating CEDA receives far lower than retail and builder pricing for furnaces at \$2600 installed for 90%+ units and boilers installed for \$3400. And we remain confident that any inaccuracies in our catalog pricing *overall* do not produce significantly inaccurate payments to contractors.

Final CEDA Comments: CEDA agrees with OIG's recommendations regarding the goal of CEDA improving its initial assessment and final inspection process. CEDA has implemented programs and process improvements to address those goals (see attachments), and has also begun a formal follow-up process to ensure corrective action plans addressing needed contractor improvements have been implemented.

Appendix 3 (continued)

CEDA is appreciative of the courtesy and consideration extended by the OIG and the opportunity to express its opinions regarding the Draft Report. Please contact us with any questions regarding these Comments or any other issues regarding the preparation of the Final Report.

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