



PERFORMANCE AUDIT REPORT

Northwest Kansas Planning and Development Commission

Weatherization Program

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
June 1984**

PERFORMANCE AUDIT REPORT

NORTHWEST KANSAS PLANNING AND DEVELOPMENT COMMISSION WEATHERIZATION PROGRAM

OBTAINING AUDIT INFORMATION

This audit was conducted by two members of the Division's staff: Barb Hinton, senior auditor, and Allan Foster, auditor. Ms. Hinton was the project leader. If you need any additional information about the audit findings, please contact Ms. Hinton at the Division's offices.

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NORTHWEST KANSAS PLANNING AND DEVELOPMENT COMMISSION WEATHERIZATION PROGRAM

Summary of Legislative Post Audit's Findings

This performance audit of the Northwest Kansas Planning and Development Commission weatherization program was requested because of concerns about insufficient internal controls within the agency and concerns about inefficient use of the program's resources.

How Effective Are the Internal Controls Over the Northwest Agency's Weatherization Program?

Agencies that receive weatherization moneys are required by federal and state regulations to establish control systems that will protect the public's money and ensure its proper use. The Northwest agency did not have some of the basic controls over the purchase, storage, and use of weatherization materials and supplies necessary to meet these requirements. For instance, prior approval was not required for purchases of materials, regardless of their size, and inventory was never reconciled to determine if any losses were occurring.

The lack of these controls caused higher materials costs and opened the program to possible abuse. By not getting bids, for example, the agency has been paying approximately \$10 more for each storm window than was necessary and has not been getting quantity discounts for items bought in bulk. The auditors determined that program officials did not have a policy of verifying that clients are eligible by checking their income. The auditors checked a sample of 49 applications against income tax returns and found 11 who apparently exceeded income requirements. Possible abuses within the program are being investigated by State officials.

Is the Northwest Agency's Weatherization Program Providing High Quality Services at a Reasonable Cost?

The auditors and State Economic Opportunity Office inspectors visited houses weatherized by the agency and determined that work done on the houses was often poor and incomplete. The agency installed large numbers of storm windows and did relatively little caulking and insulating. This does not follow the priorities established in the regulations, and it results in less energy savings for clients.

How Did the Problems at the Northwest Agency Go Undetected?

The weatherization program is designed so that there are checkpoints at the local, State, and federal level to monitor quality control and compliance with regulations. The executive director of the agency, the certified public accountant who conducted the independent financial-compliance audits, the State Economic Opportunity Office, the Department of Social and Rehabilita-

tion Services audit section, and the Department of Energy all either had oversight responsibility or had an opportunity to discover the problems. In this case the system of checks failed to work for several years.

Since the discovery of the problems, the agency and the State Office of Economic Opportunity have taken steps to attempt to solve the problems of the agency and ensure that similar problems are avoided elsewhere. This report also presents several recommendations to ensure that the changes that have been started are carried out.

Northwest Kansas Planning and Development Commission Weatherization Program

At its meeting on April 26, 1984, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit of the weatherization program operated out of Hill City by the Northwest Kansas Planning and Development Commission. The Northwest agency's executive director initially requested the audit because of concerns that the controls over the program may not be sufficient and that the program's resources may not have been used efficiently.

Weatherization programs are funded by federal moneys. No State money is involved. At the State level, the program is administered by the State Economic Opportunity Office within the Department of Social and Rehabilitation Services. The State Office distributes the federal funds and monitors the operations of 14 local agencies, which do the actual weatherization work.

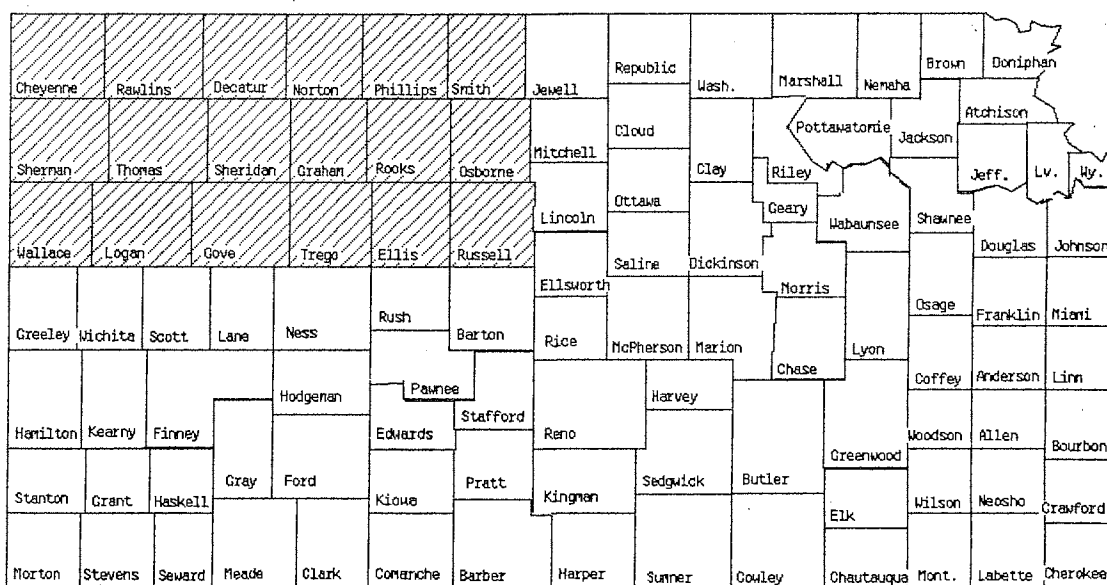
Legislative Post Audit reviewed three of those agencies in an audit issued in August 1983. That audit disclosed problems of inadequate purchasing procedures and inventory controls, and of substandard or inadequate weatherization work on some homes. The Northwest agency's weatherization program, which covers an 18-county area in northwest Kansas, was not one of the agencies reviewed at the time.

This audit addressed two main questions: Are the Northwest agency's internal controls over the weatherization program effective? And is the program providing high quality weatherization services at a reasonable cost? To answer these questions, the auditors interviewed local officials and reviewed purchasing and inventory records and control systems. They also accompanied two inspectors from the State Economic Opportunity Office during some of their on-site visits to homes weatherized by the Northwest agency's weatherization crews. Because a number of serious problems were discovered with the agency's weatherization program, the auditors examined the reasons why they had not been detected and addressed by the individuals or agencies responsible for overseeing the program's operations.

How Effective Are the Internal Controls Over the Northwest Agency's Weatherization Program?

The Northwest Kansas Planning and Development Commission has administered the weatherization program in northwest Kansas since the program's inception in 1979. Through May 1984 it had been awarded a total of \$1,026,421 in federal moneys to weatherize homes for low-income and elderly occupants. To date, the agency reports it has weatherized a total of 1,722 homes.

Until recently, the agency had an energy coordinator who reported to the agency's executive director and handled the day-to-day operations, and three weatherization work crews to cover the western, central, and eastern counties



The shaded area represents the counties served by the Northwest Kansas Planning and Development Commission

within the 18-county region. The agency also had a part-time final inspector and bookkeeper. Between February and May of this year, however, 10 of the 12 weatherization employees were terminated or were asked to resign. Four new employees have been hired, including a new weatherization director. Some of the staff turnover occurred because of alleged abuses of the program. At the time of the audit, the fraud and recovery section of the Department of Social and Rehabilitation Services was investigating the allegations of wrongdoing. The auditors did not attempt to duplicate these investigations.

Local agencies that receive weatherization moneys are required by federal and State regulations to set up accounting and control systems to protect the public's money and to ensure its proper use. To determine the effectiveness of the Northwest agency's internal controls, the auditors interviewed the executive director and current weatherization staff, and reviewed purchasing and inventory records. They also reviewed the agency's procedures for verifying that applicants meet the income eligibility guidelines established for the program.

The auditors' review uncovered serious problems with both the administration and the operation of the Northwest agency's weatherization program. The agency did not have some of the basic controls over the purchase, storage, and use of weatherization materials and supplies. These controls are needed to ensure that funds were spent properly and that assets were safeguarded against loss or misuse. In addition, the auditors determined that the Northwest agency did not verify applicants' income eligibility. Their findings in these and related areas are discussed in more detail in the sections that follow.

There Were No Central Controls Over the Purchase Of Weatherization Materials

The Northwest agency's energy coordinator essentially gave the three crew supervisors free rein to carry out their responsibilities in weatherizing homes. No controls were established over their activities. Crew supervisors inspected the homes to be weatherized and determined what work should be done. They were not required to obtain prior approval for any purchases or to fill out purchase orders. They ordered all the materials for each home to be weatherized themselves, but did not have to justify their selection of a vendor or show they were obtaining materials at a reasonable price. Although the Kansas Social and Rehabilitation Services Grants Policy Manual specifies that local agencies administering the weatherization program must obtain a minimum of three bids for the purchase of weatherization materials, the Northwest agency did not obtain bids or even price quotes for the materials used by its own crews. It used competitive bids only for subcontracted attic insulation work.

The energy coordinator apparently reviewed the invoices submitted by vendors each month, but did not attempt to reconcile the monthly billings with the items actually acquired. Neither the coordinator nor the executive director signed or initialed the invoices or the expenditure vouchers to show that the purchases had been reviewed and approved before payment was made. The lack of controls in these areas led to program abuses and high materials costs.

The lack of purchasing controls and competitive bidding procedures contributed to potential abuses of program moneys and to higher materials costs. The auditors reviewed all expenditures made by the Northwest agency during October 1982, and reviewed purchases of weatherization materials, tools, and supplies for other periods during fiscal years 1983 and 1984 as part of their testwork in other areas. Expenditures made with weatherization moneys appeared to be for weatherization purposes. The auditors did find, however, that most of the agency's materials were purchased from only two companies-- C. Moor Windows in Wakeeney and Stockton Lumber Company in Stockton. In October 1982, for example, the agency spent \$9,801 for weatherization materials. Of that amount, \$9,184, or 93.7 percent, was paid to these two companies. Since 1980, the Northwest agency has purchased a total of \$239,895 worth of materials from Stockton Lumber Company and \$132,552 from C. Moor Windows. One of the former crew supervisors is alleged to be the owner or part owner of C. Moor Windows. This would be in direct violation of federal and State conflict-of-interest regulations.

The auditors also compared the cost of materials purchased from these two firms with the costs charged by the successful bidders after the agency obtained bids in February 1984. It requested bids for such commonly used weatherization materials as storm windows, aluminum and vinyl jamb-up door weatherstrips, acrylic latex caulk, and window glazing. The bid prices were considerably below the prices being charged by C. Moor Windows and Stockton Lumber Company. For example, the Northwest agency was paying \$36-\$38 for a standard-sized storm window compared with the bid prices of \$26-\$28, and \$1.35 per tube of caulk compared with the bid prices of \$1.14-\$1.29. The auditors estimated the agency installed as many as 9,400 storm windows and

used as many as 12,000 tubes of caulk to weatherize homes since 1980. At a savings of about \$10 per storm window and 10¢ per tube of caulk, the agency might have saved about \$95,000 over the years for these two items alone.

Finally, the auditors were told of one instance in which an employee apparently tried to circumvent the bidding process. This employee ordered nearly \$3,000 worth of inventory supplies one day before the agency sent out notice that it was accepting bids for weatherization materials. According to current agency staff, the employee knew the agency was requesting bids. The inventory report dated January 26, 1984, showed there was no shortage of any of these materials in stock at the time. Because there were no controls over purchasing practices, administrators were not aware of this purchase until well after the fact, when the firm submitted its monthly billing.

There Were No Inventory Controls to Account For The Use and Storage of Weatherization Materials

The agency had no designated storage areas in any of its three county regions, so most items ordered were either stored by the vendor until the crews were ready to use them, or were stored at the supervisors' homes. Supervisors filled out a form showing which items were removed from stock, but these forms were filed in individual applicant files. The supervisors were not required to reconcile the materials or supplies that were added to inventory or those that were removed from stock, used to weatherize homes, or returned as unused. For the monthly inventory listing submitted to the State Economic Opportunity Office, the supervisors simply took a new physical count of the items in inventory. These figures were given to the energy coordinator, who compiled them into a single report.

As of May 7, 1984, the reported value of materials in inventory and storage was \$15,675. The most common items were caulk, storm windows, door sweeps, and weatherstripping. Storm windows were ordered to fit, but some ended up as extra stock because an applicant moved or died before the home could be weatherized, or because the windows were mismeasured. Because the Northwest agency did not reconcile the materials bought and used with those on hand, it could not account for the materials purchased or ensure the accuracy of its inventory records. Therefore, the potential existed for loss or misuse without detection. The auditors' attempts to reconcile items in inventory with inventory records revealed major discrepancies that agency personnel had not been aware of.

Physical counts of several items in inventory differed significantly from the inventory records. The auditors took a physical count of two of the major items in stock--storm windows and latex caulk--and attempted to reconcile their count with the inventory records. They were unable to reconcile these figures.

According to the inventory report dated May 7, 1984, the Northwest agency had 147 storm windows and 3,795 tubes of caulk in inventory. When the auditors counted these items, adjusting for the number purchased and used since May 7, they discovered there were 182 more storm windows in stock than reported, but nearly 50 fewer cases of caulk. The extra storm windows can be

explained, in part, by the fact that the new weatherization supervisor was not aware of 45 windows being stored in a lumber store in Goodland, and the crew supervisor was not aware he should report these windows. There is no explanation for the shortage of caulk. It is impossible to tell whether items are in fact missing, or whether they had been miscounted or overlooked. But such discrepancies clearly illustrate that, in the absence of inventory procedures and controls, there are no safeguards against losses and no ways of detecting that losses may have occurred.

The auditors also discovered that the Northwest agency did not require crew supervisors to account for the tools they bought, discarded, or had in their possession. At the time of the major staff turnover, the agency determined that the tools turned in by one of the resigning crew supervisors did not reconcile with the tools he had purchased from Stockton Lumber Company between November 30, 1983, and April 13, 1984. These tools cost a total of \$1,435. The auditors' review showed that there were shortages for 15 items, including caulking guns, utility knives, drill holsters, and saws. There were also few extra tools that would account for those bought and used by the supervisor and his crew before November 30. At the time of the audit, the agency was withholding this employee's final payroll and travel expense checks until the employee could account for the missing tools.

Weatherization Officials Did Not Verify Applicants' Income Eligibility

Federal regulations require that applicants for weatherization work must meet federal income eligibility guidelines. Their income must fall within 125 percent of the federal poverty level, or they must be recipients of Title IV or Title XVI Social Security payments. Federal regulations define the types of income to be included in determining an applicant's eligibility and require documentation of eligibility, but they do not specifically state how that income eligibility must be determined.

The auditors reviewed a sample of 30 applicant files from fiscal year 1983 and 35 from fiscal year 1984. They found that the Northwest agency required applicants to report their annual income, but it did not ask them to report the source of their income or to provide proof of income, such as the previous year's tax return. There was little evidence that the coordinator ever verified an applicant's reported income.

To determine whether any applicants whose homes had been weatherized did not appear to meet eligibility guidelines, the auditors compared their sample of applicants with those applicants' Kansas income tax returns for 1982 or 1983. Altogether, it appeared that 11 of the 49 applicants whose tax returns they were able to examine may not have met the income eligibility guidelines at the time they applied to have their homes weatherized. Such findings clearly illustrate the importance of verifying applicants' reported income. The new weatherization supervisor has revised the agency's application form to require income verification through the previous year's tax return. Other sources of documentation could include paycheck stubs, unemployment or welfare records, or the like.

Is the Northwest Agency's Weatherization Program Providing High Quality Services at a Reasonable Cost?

On May 16, 1984, the auditors accompanied two inspectors from the State Economic Opportunity Office to inspect the quality of weatherization work on a sample of homes in the 18-county area. Together they visited 17 homes; the State Office inspectors reviewed a total of 33 homes. The work done on most homes visited by the auditors and inspectors was of poor quality and incomplete. In addition, the weatherization crews had not been adhering to the work priorities established for the weatherization program.

Most homes required more weatherization work to keep out drafts, and the work that was done was often substandard. Altogether, 29 of the 33 homes needed more work--primarily more caulking around windows, doors, and between the foundation and siding--to stop air infiltration. Following are some examples of weatherized homes observed by the auditors:

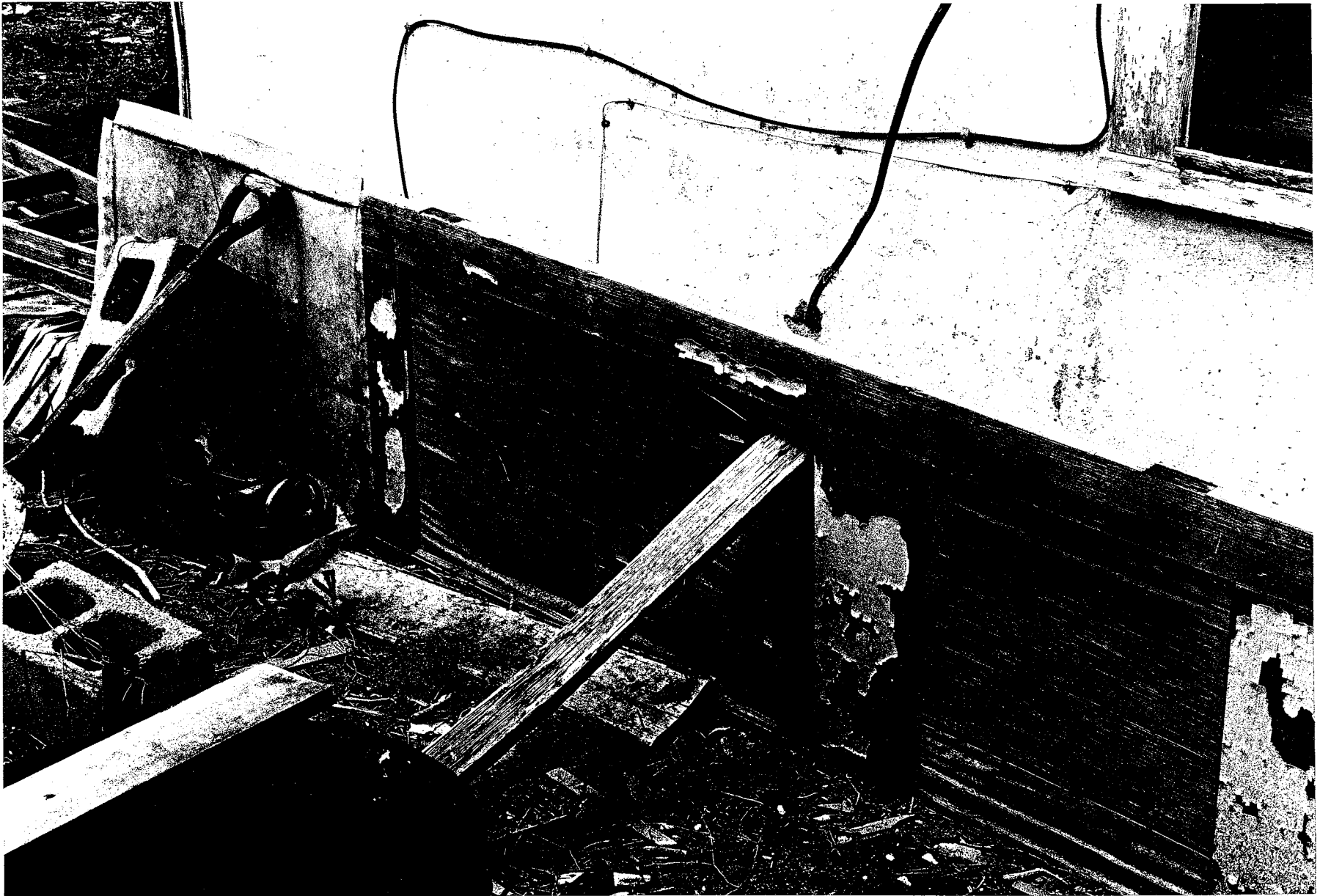
- On one home, the the back door was weatherstripped but there was a hole where the door knob should be, a one-inch gap above the door frame into the home, no caulking around the door frame, and a new threshold was installed too far forward to stop the flow of air under the door.
- The auditors noted one instance in which a storm window was installed upside down. In other instances, the storm windows were too small to seal over the existing windows. Existing windows were seldom properly caulked and glazed.
- On one home, the siding facing the north was old and rotten looking, and had pulled away from the walls in several places, allowing air to flow freely into the home. Nothing was done to stop this air flow, but weatherization crews installed 14 storm windows on this home.
- On another home, the owner had leaned old doors and pieces of wood against the foundation to stop the flow of air through the large gaps between the foundation and the siding. Nothing was done to seal off this air flow.
- On one trailer home, weatherization materials were apparently being used for remodeling purposes, which is not an allowable use.

The auditors also noted instances in which 26 and 30 tubes of latex caulking reportedly had been used on two homes. The State Office inspectors indicated that it was highly unlikely so many tubes of caulk were used. There were other instances in which thresholds, weatherstripping, glass, caulking, glazing, and the like were reportedly put on homes, but these materials could not be found.

Poor quality work, misuse of weatherization materials, and missing items indicate at a minimum that the final inspections conducted by the agency were very inadequate. The final inspector occasionally noted problems on the inspection form--such as the need for more caulk--but weatherization employees were never required to correct the problems.



This picture of a partially glazed window, taken through a storm window, illustrates the sloppy and incomplete work done on some homes by the Northwest agency's weatherization crews.



8.

This picture shows an old door and lumber that the owner had propped against the side of his home to keep out drafts. The home was in terrible shape. Besides the gaps between the foundation and siding, it had a large hole through the ceiling, three broken windows, and no attic insulation, and it needed caulking and glazing at all the windows and doors. The Northwest agency spent \$199 to weatherize this home, \$184.50 of which was spent on five storm windows. Only four of those windows could be found on the home. None of the other needed work was done.

The Northwest agency did not weatherize homes in compliance with the priorities established for the program. Weatherization agencies are required to follow the weatherization priorities for the types of work to be done. Current weatherization policy is to cut general heat waste first (weatherstripping, caulking, replacing broken windows, etc.), insulate attics second, and put on storm windows third. These three measures are supposed to be done in that order up to a limit of \$1,000 per home. The Northwest agency's estimated average cost per home for 1983 was \$850.

During their on-site visits, the auditors noted that the agency's primary emphasis appeared to be on installing storm windows rather than cutting general heat waste or insulating attics. Storm windows were installed on 26 of the 33 homes visited. These 26 homes got a total of 230 storm windows, or an average of 8.8 per home. Some storm windows were installed over large, stationary picture windows, at costs of up to \$100 apiece. Altogether, storm windows accounted for about 68 percent of all the materials costs for these 33 homes.

Attic insulation was installed in only 12 homes. Several homeowners mentioned to the auditors that they had been told their attics would not be insulated because they were getting storm windows, and to do more would put them over the dollar limit per home. As discussed in the previous section, most of the homes visited needed caulking, glazing, weatherstripping or small repairs around doors, windows, and foundations to seal out drafts and cut general heat waste. These measures cost very little in terms of materials, but have been shown to produce considerable energy savings.

The cost of providing weatherization services may not have been reasonable. Considering the poor quality of much of the work and the higher materials costs paid by the agency in the absence of competitive bids, the auditors concluded the cost of providing services may not have been reasonable. In addition, for those homes where storm windows were added but the essential caulking, glazing, weatherstripping, and repair work was not done to stop the flow of cold air, the costs may not be justified at all.

How Did the Problems at the Northwest Agency Go Undetected?

The magnitude of the control and quality problems found at the Northwest agency, and the fact that they continued unchecked for a number of years, raises questions. There are check points at the local, State, and federal levels designed to monitor weatherization programs to ensure quality control and compliance with the applicable regulations. How could all of these check points have failed with this agency? What is being done to remedy this situation now? And what should be done to ensure that the agencies' quality and control problems are properly addressed?

To help answer their questions, the auditors interviewed officials from the Northwest agency, the State Economic Opportunity Office, and the audit section of the Department of Social and Rehabilitation Services. They also reviewed federal and State regulations and the relevant reports and workpapers

of the audit section and the local public accounting firm that audits the Northwest agency each year.

The Major Responsibility for Compliance With State and Federal Regulations Falls Upon the Agency Receiving the Grant

When the director of the agency signs the grant agreement with the State Office, he agrees to be responsible for having knowledge of and complying with the appropriate regulations. Federal regulations cover specifications for materials used to weatherize homes, priorities for the type of weatherization work to be done, eligibility and purchasing guidelines, and requirements for proper financial and inventory controls to protect public moneys. State regulations generally mirror the federal regulations, but do impose stricter requirements for competitive bidding for weatherization materials.

As noted previously, the executive director did not take an active role at first in overseeing the Northwest agency's weatherization program. For some time, the director, who has held his position since October 1982, relied almost completely on the energy coordinator to handle the weatherization program's operations. The director indicated that his highest priority has been boosting the agency's economic development activities.

Several factors did cause the executive director to question the program's operations. The first was an audit completed in December 1982 by the audit section of the Department of Social and Rehabilitation Services. This audit showed that the agency owed nearly \$16,000 in disallowed costs. The energy coordinator had been reimbursed for mileage driving to and from work, and work crews had been reimbursed for meals when no overnight travel was involved. The second factor was the Legislative Post Audit report on the Kansas weatherization program issued in August 1983, which identified quality and control problems in several other weatherization programs. When the executive director questioned the coordinator about such issues--such as the program's lack of competitive bidding procedures--he was assured that everything was in order.

When a new administrative assistant was hired in January 1984 the director began to closely examine the way the program had been operated. As the nature of the problems came to light over the next several months, most of the weatherization staff was terminated or asked to resign. Had the director taken a more active interest in the program earlier in his tenure, however, problems might have been spotted sooner.

The Annual Financial Audit By An Independent Certified Public Accountant Failed to Point Out Any of the Problems Noted in This Report

Federal regulations governing the weatherization program are very specific regarding the type of audit that must be conducted. They require an independent audit done in accordance with the Office of Management and Budget's Circular A-110, Attachment F, or Circular A-102, Attachment P. These circulars require such audits to include an examination of the internal control systems and of the systems established to ensure compliance with federal regulations. This work is in addition to the traditional examination of

financial statements and transactions. An independent financial-compliance audit is very important from the standpoint of the State's monitoring responsibility. It is the most in-depth regular examination of an agency's controls and operations, and acts as an important check on the agency and its operations.

The independent audits of the Northwest agency have been conducted by a local certified public accountant. Except for some questioned reimbursement costs, these audits have all stated that the agency's internal controls were adequate and that the agency was in compliance with federal regulations.

Legislative Post Audit examined the workpapers of the most recent audit. This examination was conducted by the Financial-Compliance Audit Manager, who is responsible for reviewing the workpapers of firms doing financial-compliance audits of State agencies under contract with Legislative Post Audit. He concluded that the certified public accountant did not document sufficient audit work to meet the basic audit requirements in the areas of compliance and internal controls. This matter is being referred to the Board of Accountancy for review.

Monitoring Efforts By the State Economic Opportunity Office Have Been Too Limited

The State Economic Opportunity Office must ensure that subgrantees comply with all appropriate federal regulations and with the Grants Policy Manual. As primary grantee of the Department of Energy's weatherization money, it had the major monitoring responsibility over the Northwest agency's weatherization program.

To carry out its oversight responsibilities, the State Office requires agencies to submit monthly budget and inventory reports, reviews the annual independent audits of agencies, and conducts an annual monitoring visit to each agency. In addition, the State Office has asked the audit section of the Department of Social and Rehabilitation Services to audit the agency as a recipient of weatherization grant moneys.

Legislative Post Audit noted in its August 1983 report on the weatherization program that the State Office needed more extensive monitoring efforts to identify quality and control problems at local weatherization agencies. The auditors' review of the May 1983 monitoring report for the Northwest agency offers further evidence that the procedures being followed were far too limited.

During his May 1983 visit, the State Office inspector asked questions about purchasing and inventory controls, but made no review to see if those controls were in fact in place. He visited 10 homes. These visits appeared to more complete. Problems were noted with insufficient caulking, the installation of storm windows over window air conditioners, and the continued use of storm doors, which were disallowed for the program in 1979. The inspector did not identify any problems as severe as those noted by the auditors and the State Office inspectors during their May 1984 on-site visits.

Many of the problems noted by the inspector in May 1983 were recurring problems. For example, the agency was cited in 1980, 1981, and 1983 for not

applying enough caulk around doors and windows to reduce air infiltration. The agency's energy coordinator was also cautioned about the "control and scheduling of weatherization employees' daily duties and goals" following the 1981 inspection, and was encouraged to "spot check...inspectors occasionally to see if all phases of weatherization work are being completed," following the 1983 inspection. Apparently, no corrective action was ever taken. The State Office did not have procedures to ensure that problems identified during a monitoring visit were resolved.

After the May 1983 visit, the inspector also noted in his workpapers that the agency did not verify client income, even though local weatherization agencies are required to do so. The director of the State Economic Opportunity Office did not mention this noncompliance in a letter about the inspection to the agency's executive director. The State Office also did not question the agency's accounting and control practices even after an audit by the audit section showed that improper reimbursements totaling nearly \$16,000 had been made for mileage and meals.

The Audit Section Examined the Agency in 1982 But Did Not Note Any Control Problems or Non-Financial Compliance Problems

In 1982, as one in a series of audits of all of the local weatherization programs, the audit section of the Department of Social and Rehabilitation Services conducted an audit of the Northwest agency. This audit focused primarily on an examination of expenditures and allowability of costs. It touched only briefly on the areas of financial and inventory controls. The audit section's auditors administered a questionnaire on internal accounting controls which asked such questions as whether inventory and property records were maintained, what type of purchase order and approval system was used, and whether there were any non-arm's length agreements with staff, owners, or board members. Generally, the answers to these questions indicated there were no problems. However, the audit section's auditors did not conduct any testwork to specifically determine whether purchasing and inventory controls were adequate.

Given the Northwest agency's lack of purchasing and inventory controls, it is difficult to understand how the pervasive problems in these two areas were overlooked. This situation points out the weakness of using an unverified questionnaire to evaluate systems of internal controls. The manager of the audit section indicated that some reliance was placed on the certified public accountant's tests of internal controls.

Monitoring Efforts by the Department of Energy Focus More On The State's Administration of Weatherization Programs

Regional officials from the Department of Energy sometimes conduct monitoring visits of local weatherization agencies, but their purpose is somewhat different. According to officials in the regional Kansas City office, local agencies' programs are reviewed to determine whether the State is properly administering the weatherization grant moneys it receives. For this reason, officials make no attempt to visit each local agency to measure its performance. The only recent Department visit to the Northwest Kansas Planning and

Development Commission's weatherization program was a short observation visit in March 1981. At that time, a Department official did inspect a few homes, and noted several problems with the quality of the weatherization work. He also made note of possible management problems. These observations were reported to the State Office inspector.

Steps Are Being Taken to Address the Situation In the Northwest Agency's Weatherization Program, But More Can Be Done

When the executive director began to see the magnitude of the problems, he ordered a lengthy investigation by his staff, alerted the Department of Social and Rehabilitation Services, and requested this audit. At the time of the audit, the agency appeared to be making a concerted effort to improve its weatherization program. The executive director was taking a more active role in administering the program, and new personnel had been hired. The director and the new weatherization supervisor had also begun working with the State Office and the director of another Kansas weatherization program to redesign the entire program. A bid process has been initiated to pick materials suppliers, a single control warehouse with limited access is being planned, purchasing and inventory controls are being developed, and a new application process has been implemented incorporating income verification.

There has been a lot of State involvement in the program as well. The State Economic Opportunity Office has issued a report covering its inspectors' May 1984 inspections. The report summarized their findings about the poor quality weatherization work and the work that needs to be done to bring the homes up to acceptable standards. Based in part on these inspection results, the State Office has suspended the agency's funding for all but the homes currently being weatherized until the investigations into the problems are concluded. The State Office also plans to give more extensive training and technical assistance to the agency, including help in setting up proper control systems and procedures and weatherization training for crew supervisors and the new final inspector. Its 1984 State Plan addresses some of these areas.

The two inspectors who conducted the May 1984 review were temporary employees the State Office hired in response to Legislative Post Audit's August 1983 report criticizing the Office's inadequate weatherization monitoring. At the time these positions were created, the State Office also requested four new monitoring positions. These positions have recently been filled. They will make up a monitoring unit in the quality control section of the Department of Social and Rehabilitation Services, and will be responsible for monitoring all grants administered by the State Economic Opportunity Office.

The audit section of the Department of Social and Rehabilitation Services is scheduled to send a team of auditors to the Northwest agency sometime in June 1984. The audit section is responsible for determining whether any costs incurred by the agency should be disallowed and repaid to the State. If any costs are disallowed, this information will be reported to the State Economic Opportunity Office. The audit section also has plans to conduct audits of all weatherization programs at least once every two years.

The State Economic Opportunity Office has informed the regional office of the Department of Energy of the recent developments regarding the Northwest agency. Finally, the fraud and recovery section of the Department of Social and Rehabilitation Services is conducting its own investigations into allegations of fraud or abuse of the agency's weatherization program. No final determinations had been made at the time of this audit.

In sum, the Northwest agency's weatherization program has received considerable attention recently. If the program is to continue under this agency, it will need this attention and more if the problems identified in this audit are to be remedied. It is not enough to determine the extent to which the program may have been the subject of abuse or misappropriation of assets. If documentation exists to show that it has, that information should be turned over to the appropriate authorities to recover assets or to initiate criminal prosecution.

It is also essential that a number of other steps be taken to restore the credibility of the weatherization program--both at the local level and the State level. The Northwest Kansas Planning and Development Commission must ensure that it has the proper controls and procedures in place, complies with all federal and State regulations, and improves the quality of its weatherization work. The State Economic Opportunity Office must act forcefully to identify and resolve the problems in this agency and ensure such problems do not exist or are not allowed to continue at other local weatherization agencies. Other actions by the audit section and the fraud and recovery section can help ensure that the problems identified in this report are quickly resolved. Legislative Post Audit's recommendations are as follows.

Recommendations

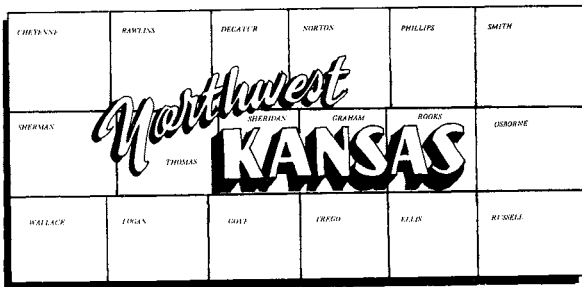
1. The Northwest Kansas Planning and Development Commission should ensure that it develops systems of internal controls over purchasing and inventory that will bring the agency into compliance with federal and state regulations regarding such systems, and will help prevent the reoccurrence of problems in these areas. The Northwest agency should also verify applicants' income before approving their homes to be weatherized under the program.
2. The Northwest Kansas Planning and Development Commission should ensure that the independent financial-compliance audits it obtains in the future meet all of the basic audit requirements in the areas of compliance and internal controls.
3. When auditing local weatherization agencies, the audit section of the Department of Social and Rehabilitation Services should review the workpapers of the most recent independent financial-compliance audit. Its audit work should build on and not duplicate this work. If the audit coverage in any particular area is not adequate to meet its requirements, the audit

section should do additional testwork to ensure that no problems exist in these areas.

4. The State Economic Opportunity Office should report to the Legislative Post Audit Committee at the end of 90 days on any developments at the Northwest agency and on its own efforts to address the quality and control problems identified in this report. The State Office should also report on the specific steps it is taking to ensure problems of this nature are prevented or detected at other local weatherization agencies.
5. The fraud and recovery section of the Department of Social and Rehabilitation Services should also report the results of its investigations into the alleged wrongdoings at the Northwest Kansas Planning and Development Commission's weatherization program to the Legislative Post Audit Committee when those investigations are completed.
6. The Legislative Post Audit Committee should consider directing the Legislative Division of Post Audit to conduct a follow-up audit in six months to assess how adequately the Northwest Kansas Planning and Development Commission and the State Economic Opportunity Office have resolved the problems identified in this audit.

APPENDIX A

Agency Responses

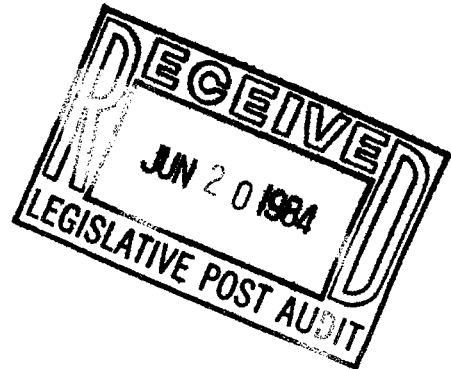


**PLANNING and DEVELOPMENT
COMMISSION**

319 N. Pomeroy Ave.
Box 248

(913) 674-2151

Hill City, Kansas 67642



June 19, 1984

Mr. Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
Mills Building - Suite 301
Topeka, KS 66612

Dear Mr. Williams:

On behalf of the General Board of the Northwest Kansas Planning and Development Commission, please accept our sincere thanks for the involvement of your department in conducting a performance audit of our agency's weatherization program. The decision to request this audit was a difficult one. A review of the audit report is equally painful and embarrassing but confirms that our decision was the correct action for all concerned.

The purpose of this letter is not to offer a rebuttal but rather to outline certain corrective measures which will be taken by the Northwest Kansas Planning and Development Commission. Each Board member feels a keen obligation to make sure that problems of the past outlined in the report are rectified and that there is immediate improvement in the quality of our weatherization work.

Many positive steps were already taken by our director even before any outside investigations were requested by us. Agency personnel involved in sub-standard work and other irregularities were terminated and are no longer on our payroll. Starting on March 1, 1984, we did begin purchasing weatherization materials on a bid basis and this will continue with new bids being solicited every six months. We have employed a new weatherization supervisor who has a solid background in construction and quality control; through his efforts numerous procedural changes are being implemented.

Before outlining what certain steps will be taken in the future by our agency, I want to assure you that we feel a moral obligation to redress some of the wrongs of the past. We owe this to the eligible citizens of our area who placed their trust in us since our program began in 1979. Therefore, at our own expense, we are budgeting a new position in our

1984-85 budget which becomes operational on July 1, 1984. It will be the responsibility of the person employed to fill this position to perform a follow-up visit on as many of the 1,722 homes as possible to determine what corrective work needs to be done. Financially we cannot afford to do everything that will probably need to be accomplished. But your auditors and SRS field investigators have indicated that the major problem was that adequate caulking was not done to keep out drafts, particularly around windows, doors and between the foundation and siding. We can and will do this. In addition to the salary for this position, we have budgeted \$10,000 for purchase of caulking, weatherstripping and other similar materials. We will also pay all travel expenses. A total of slightly more than \$30,000 is being budgeted and will be spent within the next 12 months as we attempt to correct past substandard work.

Some of the changes which have already been implemented include the following: 1) tight purchasing controls are in place and competitive bidding procedures have been implemented; 2) all weatherization inventories are now housed in a central location which is the basement of the Commission office headquarters in Hill City and reconciliation of materials or supplies that are added to or removed from the stock is taking place; 3) crew supervisors must now account for all tools bought with weatherization funds and; 4) all homes now weatherized by our agency are being done in compliance with priorities established for the program.

Major steps are being taken to verify an applicant's income eligibility. We are now requiring a copy of the latest Federal Income Tax return or other proof of income before any application will be approved. Of course, we are not now processing new applications but concentrating on finishing about 140 homes where work is in progress.

Also, as requested by the State Economic Opportunity Office, our weatherization employees are in the process of setting up a system that prioritizes LIEAP recipients who are at 125% of the poverty level, handicapped or elderly, then non-LIEAP in the same categories, then low-income persons. This has not been entirely implemented as of this date but work is continuing to get this process in place.

Since none of our current weatherization employees have been employed by our agency for more than one year, we have been most pleased to learn that the state weatherization office will be working closely with us in providing proper training of these new employees. We want to have a top-notch weatherization program and this assistance is most welcome since it can help immensely in ensuring that quality work is performed.

The Board will be discussing this report at it's monthly meeting on June 27. Considerable attention will be given to the recommendation contained on page 14 relative to the independent financial-compliance audits. We have not yet approved an auditor to conduct an audit of our 1983-84 financial records and you can be assured that we will make every attempt to retain, from here on, the services of an auditor who will meet all of the basic audit requirements in the areas of compliance and internal controls.

In summary, I would point out that all items of your recommendations to our agency have been addressed and that efforts are to extend substantially beyond these minimum program requirements.

We respectively request that the Legislative Post Audit Committee direct your auditors to conduct a follow-up audit at the end of six months to determine how adequately we have followed our proposed plan to resolve the problems identified in your report. We are confident you will be impressed with the vast improvement which will have occurred.

I also ask that you carefully review the letter from our director, Mr. Leroy E. Lyon. His point is well made. The General Board is supportive and appreciative of his efforts in rebuilding our agency during the past 21 months. If he failed to detect the problems at an earlier date it was simply due to the tremendous workload which he had to assume and an extremely limited number of employees to carry out the Board's directives. We've asked a lot of him and he has been an extremely busy individual.

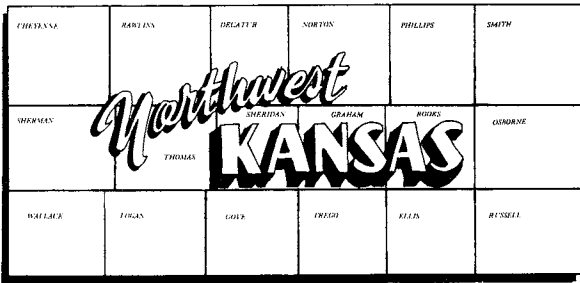
Now that your investigation and report has been completed, we're ready to proceed with the huge task ahead of rebuilding our weatherization program into a viable activity which reflects credit to all concerned. Thanks for your assistance.

Sincerely,



Dean L. Papes
General Board Chairman
& Trego County Commissioner

DLP:sjh



**PLANNING and DEVELOPMENT
COMMISSION**

319 N. Pomeroy Ave.
Box 248

(913) 674-2151

Hill City, Kansas 67642

June 19, 1984

Mr. Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
Mills Building - Suite 301
Topeka, KS 66612



Dear Mr. Williams:

As the Executive Director for the Northwest Kansas Planning & Development Commission, I want to make a few comments relative to the performance audit report recently compiled by your agency following an on-site audit of our weatherization program.

First, I want to commend you and your staff in performing the audit as I requested. The report does verify and document our worst fears about our program. Allen Foster and Barbara Hinton were extremely courteous and are a real credit to the State of Kansas.

Second, I want to express my concern about that portion of the report which relates to the responsibility of our agency's director. I realize only too well the responsibilities of this position and I am not attempting in any way to abrogate my duties. However, it should be noted that I have only had this responsibility since October 11, 1982. Prior to that date, the director of this agency was Franze Gourley and it was while Mr. Gourley was the Executive Director that the weatherization program was developed and incorporated as one of our activities. It was also under his tenure that the weatherization personnel were employed. The Energy Coordinator was employed by the Commission on May 22, 1978 and was still holding that position when I became director in October, 1982. Further, the two weatherization supervisors began work for us on January 11, 1980 and were still holding their positions when I became director. I had no reason to suspect that these tenured employees were not performing satisfactory work or failing to comply with State and Federal regulations. I received no negative comments from weatherization clients or the granting agencies to lead me to begin any kind of investigation of the weatherization program. When I walked through the door to become Executive Director/Economic Development Director, I noticed two plaques hanging on the wall which recognized our agency for its effective management of the weatherization program. With all of the above conditions in place, who was I to immediately question the effective operation of the agency's weatherization program.

Also, as discussed with your auditors, I was employed by the Executive Committee of the Northwest Kansas Planning and Development Commission to fill a dual role—that of Economic Development Director as well as Executive Director. When I became director, our agency was experiencing difficulties of remaining a viable entity. We had lost considerable support, both financial and otherwise, of counties and cities in our 18-county service area. Other than the weatherization program, I had a full-time secretary and a part-time bookkeeper when I became director. The Executive Committee determined that the major thrust of the agency would be to develop a broad, local-based economic development program and I immediately began work to develop a two-year economic development program and to re-construct the agency.

Today the Northwest Kansas Planning and Development Commission is a strong organization. We have seven full-time and two part-time employees to perform a wide variety of community and economic development services, not counting weatherization employees. Where we had eight member counties in 1983, we have 14 dues-paying member counties in 1984.

I provide this background for one basic reason. I do not feel it is fair to imply on page 10 of the report that I, the director, should have taken a more active interest in the program. I inherited what I assumed was a good weatherization program which had run to my knowledge with a minimum of problems for at least four years. So, yes, I did rely "almost completely on the energy coordinator to handle the weatherization program's operations". That's what supervisors are hired to do.

It is also not entirely correct to state on page 10 that I did not begin to examine the way the program had been operated until a new administrative assistant was hired in January of 1984. I told your auditors that I had started raising questions in the spring of 1983 after the SRS financial audit revealed some irregularities and asked in March of 1983 for a return of nearly \$16,000 in disallowed costs. I did begin at that time to look more closely at the weatherization program but until I could fulfill the requests of my Executive Committee to reorganize the agency and develop a new economic development program could I become involved in a time-consuming investigative activity of the weatherization program. The hiring of an administrative assistant did allow me to concentrate on the problems of the program and to take corrective measures.

I do appreciate the comments on page 13 which indicate that I, as director, have taken a more active role. The statement on page 2 that I have either terminated or asked for resignations of 10 of the 12 weatherization employees, including the Energy Coordinator, between February and May of 1984 is correct and is proof of my commitment to get the weatherization program back on the right track. I was, however, disappointed that there was no mention of the internal investigation I ordered be conducted by my staff. Our investigation consumed hundreds of man-hours and the data from same were given to the Legislative Post Auditors as well as the SRS investigators. In our quest to help bring all the problems to the surface for rectification, no information of any sort was held back. In fact, I instructed my staff to comply with absolutely any request made by the auditors to aid in the investigation. I believe this merits being mentioned in the report.

I regret that the audit report presents a negative aspect of our weatherization activities. A lot of good has been performed through our efforts but I also realize that facts are facts and that we should have been more diligent. However, I as director refuse to accept responsibility for the years the program operated when I was not associated with it.

Sincerely,



Leroy E. Lyon
Executive/Economic Development Director

LEL:kt



STATE OF KANSAS

JOHN CARLIN, GOVERNOR

STATE DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

STATE ECONOMIC OPPORTUNITY OFFICE

Biddle Building, 100 NE
2700 SW Sixth Street
Topeka, KS 66606

STATE OFFICE BUILDING
TOPEKA, KANSAS 66612

ROBERT C. HARDER, SECRETARY

June 20, 1984

Mr. Meredith Williams, Legislative Post Auditor
Legislative Division of Post Audit
Mills Building
Topeka, Kansas 66612

RE: Draft Audit on NWKPCD

Dear Mr. Williams:

The State Economic Opportunity Office has reviewed the Performance Audit Report of the Northwest Kansas Planning and Development Commission (NWKPCD) Weatherization Program. In the review process there were specific comments, clarification and corrective actions to be included in our response. The following information is intended to provide clarification of statements contained in the report and to provide the SEOO Corrective Action Plan for the Northwest Kansas agency.

- A. The findings represented in the sections, "How Effective Are the Internal Controls Over the Northwest Agency's Weatherization Program", and "Is the Northwest Agency's Weatherization Program Providing High Quality Services at a Reasonable Cost", are consistent with the findings of the SEOO investigations completed to date.
- B. In response to the section, "Monitoring Efforts By the State Economic Opportunity Office Have Been Too Limited", the following comments are provided:
 - 1) The State Economic Opportunity Office requests letters of approval from SRS Area Offices for the subgrantees within their areas prior to the agencies' grant award approval. In utilizing this procedure as a resource of information, it is assumed there are no significant problems in the grantee agency.

- 2) Complaints or comments made from the public from the communities serviced by the subgrantee agency have been helpful in determining if an agency was performing quality work. In this particular agency, clients were pleased with the weatherization services they had received.
 - 3) Until May, 1984, the SEOO has not had the appropriate staff to perform indepth on-site monitoring. The staff was utilized in agencies with known discrepancies. This particular agency had received correspondence from SEOO since 1981 in regards to program deficiencies in the quality of work performed. However, there was not a follow-up procedure initiated until after the Post Legislative Audit Report of August, 1983.
 - 4) In the financial-compliance area of Accounting Procedures and Reports, the SEOO did not have a financial person on staff from 1982 through September, 1983. Therefore, the agencies' Annual CPA Audits were used for the assurance that their accounting systems were in compliance with SRS Policies and Procedures. Financial Reports were used primarily to determine the categorical costs percentages, the cost factors relating between houses completed and cost of completion to ensure the ceiling limit per house was not exceeded.
 5. In response to SEOO not questioning the accounting and control practices of the Northwest Agency after the SRS Audit Section determined they had \$16,000 in disallowed costs, a request for reimbursement was made to Mr. LeRoy Lyon, the Executive Director, through Mr. Gene Dawson, the SRS Area Manager of the counties Northwest serves. Acting as a liason between SEOO and Mr. Lyon, Mr. Dawson presented Mr. Lyon with a compromise reimbursement figure of \$11,785 which represented \$10,202 in disallowed travel costs and \$1,583 in accrued interest. In a May 27, 1983, letter, Mr. Lyon agreed to reimburse the state for this amount. On July 8, 1983, SRS received and deposited the Northwest Agency's check.
- C. Further clarification of "Steps Are Being Taken to Address the Situation in the Northwest Agency's Weatherization Program, But More Can be Done." In Paragraph 2, page 13 of the report, specific emphasis on the extension of the agency's weatherization program should include: The SEOO has imposed a partial suspension of funds which allows the subgrantee to draw down funds only to complete homes in progress, requiring that new contracts are not authorized until after all investigations are completed.

- D. In response to the Recommendations of the Post Legislative Audit Report, the SEOO has taken specific steps to correct deficiencies and implement controls:

Problem: "There Were No Central Controls Over the Purchase Of Weatherization Materials." This section of the report specifically refers to an absence of competitive bidding procedures, a possible violation of Federal and State conflict of interest laws, and the high cost of materials charged to the agency.

Actions Taken:

- A. The Weatherization Director has conducted an on-site visit to review new procedures now being implemented by the agency. A new contract and bid procedure has received preliminary approval by SEOO.
- B. The allegation that a former Weatherization Program employee was owner or part-owner of a window company supplying windows to the agency has been referred to SRS Fraud and Recovery for investigation.
- C. A materials cost price guide based on average statewide costs for weatherization materials has been provided by SEOO to assist in the bid process.

Action Proposed: SEOO will further review new procedures before they receive final approval and will provide technical assistance to resolve problems in the above areas. A monitoring visit will be conducted in early August to evaluate compliance in these areas.

Problem: "There Were No Inventory Controls to Account For The Use and Storage of Weatherization Materials." This section of the report specifically cites the absence of a central storage facility and system for tracking storage and use of weatherization materials.

Actions Taken: NWKPDC has established a central storage facility and begun development of a system, assisted by computer tracking, of inventory control. As this system is not completed, it has not been reviewed by SEOO.

Action Proposed: Review and analysis of the Inventory Control system prior to final approval. A monitoring visit will be conducted in August to evaluate this system.

Problem: "Weatherization Officials Did Not Verify Applicant's Income Eligibility." This section of the report refers to an absence of a process to verify income eligibility information provided by the client on the Weatherization Application form.

Actions Taken: NWKPDC has completed a new procedure requiring clients to submit income tax records and any record of Social Security payments with their application forms. This procedure has received preliminary approval.

Action Proposed: SEOO will refer this problem to SRS Fraud and Recovery as it appears that clients may have falsified eligibility information on application forms.

Problem: "Is the Northwest Agency's Weatherization Program Providing High Quality Services at a Reasonable Cost?" This section of the report refers to substandard weatherization work and lack of compliance with weatherization priorities as required by Federal regulations.

Actions Taken: SEOO Weatherization Inspectors conducted a monitoring visit May 14, 1984 - May 17, 1984. Their findings are consistent with the findings of the Audit Report and were provided in detail to NWKPDC. Additional written material has been provided regarding proper ventilation and insulation techniques. An action plan has been requested but not received to date.

Action Proposed: SEOO will conduct an on-site training program for Weatherization Program staff to improve the quality of weatherization work. An inspection visit will be scheduled in August to inspect the 40 homes projected for completion by that time.

Summary

The SRS concurs with the assessment of this Audit Report in that changes must be made in the procedures of all agencies involved to adequately monitor the Weatherization Program and develop additional systems which will detect problems at an early stage of the program year.

The current actions in progress at SEOO are designed to comply with the recommendations of the report.

It cannot be over emphasized that the newly established monitoring unit will serve as an "early warning system", provide the type of information needed to ensure program compliance and cost benefits, and ensure quality weatherization services to Kansas citizens.

SRS/State Economic Opportunity Office
Letter to Mr. Meredith Williams LPA
Page 5

Also attached are comments from the SRS Audit Section. If you have further questions, please feel free to contact me.

Sincerely,

Robert C. Harder by JCS

Robert C. Harder
Secretary

RCH:smp

cc: Anita Favors
Charles Stevenson
Sue Rodgers
John Badger

MEMORANDUM

FROM: Frank Webb
TO : Charles Stevenson

DATE : June 15, 1984

SUBJECT: Response to LPA report of Northwest
KS Planning and Development

There are only two areas of LPA's report directly pertinent to the Audit Section.

- 1) On page 9 is the highlighted statement "The cost of providing weatherization services may not have been reasonable." This will be reviewed during the audit and potentially funds may be requested to be returned to SEOO due to this. Two possibilities exist in this area. One, mentioned in the LPA report, is that a non-arms length agreement may have existed, resulting in higher costs. If this can be determined, then the cost paid would be lowered to a reasonable level. The second possibility can be used whether or not a non-arms length agreement exists. Under the principle commonly called the prudent person concept, care should be taken to purchase all items at reasonable prices. If reasonable prices were not paid then potentially a request for funds could be made based on the prudent person concept.

These comments in no way reflect that a change should be made to LPA's report, only that this area will be reviewed further by the Department.

- 2) On page 12, the section titled "The Audit Section Examined the Agency in 1982 but did not note any control problems or non-financial compliance problems." relates solely to Audits. This section directly relates to recommendation 3 in the LPA report also.

The Audit Section concurs with the report and recommendation 3 and will begin to take steps to expand the scope of our audits. As non-certified Public Accountants we have some concern about reviewing Certified Public Accountants workpapers, but we recognize the need to fully review all areas pertinent to our grants. It is anticipated that we will contact LPA with regard to potential procedures to follow when reviewing CPA workpapers.

FW:wlh

cc: Gary Weidenbach

