

**Weatherization Assistance Program  
Governor's Energy Office**

**Performance Audit  
October 2010**



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October 21, 2010

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Weatherization Assistance Program, administered by the Governor's Energy Office. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Governor's Energy Office.

*Sally Symanski*



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# TABLE OF CONTENTS

	<b>PAGE</b>
<b>Report Summary</b> .....	<b>1</b>
<b>Recommendation Locator</b> .....	<b>5</b>
<b>CHAPTER 1: Overview.</b> .....	<b>9</b>
<b>Weatherization Assistance Program</b> .....	<b>11</b>
<b>Audit Scope and Methodology</b> .....	<b>17</b>
<b>CHAPTER 2: Program Accountability.</b> .....	<b>19</b>
<b>Procurement</b> .....	<b>20</b>
<b>Service Prioritization</b> .....	<b>28</b>
<b>Quality Assurance</b> .....	<b>30</b>
<b>Program Infrastructure</b> .....	<b>35</b>
<b>CHAPTER 3: Financial Accountability</b> .....	<b>39</b>
<b>Cash Management</b> .....	<b>39</b>
<b>Landlord Contributions</b> .....	<b>43</b>
<b>Quarterly Financial Status Reports</b> .....	<b>45</b>
<b>Expenditures</b> .....	<b>50</b>
<b>Material Costs</b> .....	<b>53</b>
<b>CFDA Numbers</b> .....	<b>55</b>
<b>APPENDIX A</b> .....	<b>A-1</b>

## *Glossary of Terms and Abbreviations*

**Bidder** - Community Action Agency or other public, non-profit, or local government agency applying to provide weatherization services in a designated region.

**CFDA** - Catalog of Federal Domestic Assistance. This is a basic reference source on federal programs. The primary purpose of the catalog is to assist users in obtaining general information on federal assistance programs. Each federal assistance program is assigned a unique CFDA number.

**COFRS** - Colorado Financial Reporting System. The financial information system that maintains the official accounting records for Colorado state government.

**Community Action Agency** - A private corporation or public agency established pursuant to the Economic Opportunity Act of 1964, Pub. L. 88-452, which is authorized to administer funds received from federal, state, local, or private funding entities to assess, design, operate, finance, and oversee antipoverty programs.

**Davis-Bacon wage requirement** - A federal law mandating that laborers on public works projects subject to this requirement receive a prevailing wage and benefits as determined by the U.S. Department of Labor.

**Dwelling** - A house, including a stationary mobile home, an apartment, a group of rooms, or a single room occupied as separate living quarters, eligible for weatherization services.

**Energy audit** - A process to assess how much energy a dwelling consumes and to evaluate what measures can be taken to make the dwelling more energy efficient.

**Energy Office** - The Governor's Energy Office is the office appointed by the Governor to lead Colorado's efforts to advance energy efficiency and to identify renewable, clean energy resources. The Governor's Energy Office administers the Weatherization Program in Colorado.

**Federal poverty level** - Income thresholds established by the U.S. Department of Health and Human Services to determine if a person or a family is eligible for assistance through various federal programs.

**LEAP** - Low-Income Energy Assistance Program. A federally funded, state-administered program that is designed to assist eligible low-income individuals with their winter heating costs.

**Local agency** - An entity providing weatherization services in a designated region.

**Special conditions** - Additional requirements imposed on a local agency by the Governor's Energy Office if the local agency has a repeated history of poor performance, financial instability, or mismanagement; violates the terms and conditions of the contract; or is irresponsible in administering the Weatherization Program.

**State Weatherization Plan** - A plan submitted by a State to the U.S. Department of Energy no later than 60 days after the date of notice to apply. The State Plan includes pertinent information required to run a weatherization program, including the name of the office responsible for the program, the number of homes to be weatherized, a budget, a training and technical assistance plan, and a monitoring plan.

**Weatherization Program** - The federal Weatherization Assistance program created by the federal Energy Conservation and Production Act of 1976 to reduce low-income households' utility bills by making long-term energy-efficiency improvements to homes.



**Weatherization Assistance Program  
Governor's Energy Office  
Performance Audit  
October 2010**

**Purpose and Scope**

The purpose of this audit was to review the State's administration of the Weatherization Assistance Program (Weatherization Program) for compliance with federal and state laws, regulations, and federal grant requirements, including those requirements set forth by the federal Single Audit Act. Our audit focused on the Governor's Energy Office's (Energy Office's) processes for procuring local weatherization agencies, making payments to local agencies, monitoring local agencies' performance, and managing grant data and information. This audit is the third in a series of performance audits conducted by the Office of the State Auditor to review programs funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act). These audits are designed to provide Colorado taxpayers with an assessment of state agencies' internal controls over Recovery Act expenditures to ensure that expenditures are proper, allowable, and reasonable under state and federal requirements. We performed audit work from February through September 2010.

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 findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Overview**

The Weatherization Program was created nationwide under Title IV of the federal Energy Conservation and Production Act of 1976 during a period of high energy prices following the 1973 oil crisis. The Weatherization Program's goal is to reduce low-income households' utility bills by making long-term energy-efficiency improvements to homes, such as installing insulation, sealing leaks around doors and windows, and modernizing heating equipment. Dwellings (single family homes or single units within a multi-family building) are eligible for weatherization services if the family residing there earns 200 percent or less of the federal poverty level, or if a household member is eligible for or received Aid to the Needy Disabled, Medicaid, Social Security Income, or Temporary Aid to Needy Families in the last 12 months, or is eligible for the Colorado Low-Income Energy Assistance Program. In addition to its regular federal funding through the U.S. Department of Energy, the Weatherization Program was one of the programs Congress identified for additional funding under the Recovery Act. In Colorado, the Weatherization Program is scheduled to receive about \$79.5 million in Recovery Act funding, which is available to cover expenditures incurred between June 15, 2009 and March 31, 2012.

*For further information on this report, contact the Office of the State Auditor at 303.869.2800.*

The Energy Office administers the Weatherization Program in Colorado. The Energy Office contracts with 11 local agencies to implement weatherization activities in 10 regions across the state. These agencies either conduct weatherization work in-house or contract with local contractors for weatherization activities. In Fiscal Year 2010 the Colorado Weatherization Program weatherized 7,440 dwellings, an increase of 105 percent over the 3,631 dwellings weatherized in Fiscal Year 2009. This increase is largely due to the increase in funding from the Recovery Act. In Fiscal Year 2010 the average cost for weatherizing a dwelling was about \$3,850. Expenditures for the Weatherization Program totaled \$32.2 million in Fiscal Year 2010.

## Key Findings

### Program Accountability

The Energy Office contracts with local agencies to provide a variety of weatherization services to eligible dwellings. These services include determining applicant eligibility, conducting energy audits, installing cost-effective weatherization improvements, and inspecting work to ensure quality installation and safety. The Energy Office is responsible for oversight of the local agencies and the program as a whole. We reviewed the Energy Office's practices for ensuring program funds are used in accordance with federal rules and regulations and result in delivery of high-quality weatherization services. We identified several areas for improvement:

- **Procurement process.** During the Fiscal Year 2010 competitive process for procuring local agencies, the Energy Office notified the bidders of its award decision prior to the required public hearing. Specifically, the Energy Office sent grant award and rejection letters to bidders 21 and 44 days prior to the public hearing in two regions and issued a press release announcing the winning bidder 17 days prior to the public hearing in one of the two regions. Federal regulation requires the Energy Office to use the public hearing and comment process to select the winning bidders. The Energy Office's actions gave the appearance that an award decision had been made without receiving full public input.
- **Service prioritization.** Of four local agencies visited during our audit, all lacked written policies for prioritizing clients and three reported that, in practice, they do not prioritize clients or serve them in order of greatest need. The Energy Office's policies require local agencies to prioritize waitlists so that the elderly, the disabled, and those most in need (as defined by the local agency) are served first. The policy further states that a first come, first served priority policy is not acceptable. As of February 2010 the average wait time for weatherization services statewide was about two and a half months.
- **Quality assurance.** For six of 45 dwellings reviewed at four local agencies (13 percent), the local agency inspector inspected his or her own weatherization work. For an additional 12 of the 45 dwellings (27 percent), the local agency did not track information on who conducted the work on the home in the file. Additionally, the Energy Office allows local agencies to select the sample of homes that the Energy Office reviews for its quality assurance monitoring.

## Financial Accountability

We identified problems with the Energy Office's financial management of the Weatherization Program in the following areas, increasing the risk that public funds are not adequately protected; used in a fiscally responsible manner; or used in accordance with laws, rules, and other requirements. We identified several areas for improvement:

- **Cash management.** The Energy Office advanced \$7.5 million, or 25 percent of total agency funding, to the 11 local agencies during Fiscal Year 2010 without agency requests and justification for the advances. Federal regulation specifies that cash advances be "...limited to amounts needed and be timed in accordance with the actual, immediate cash requirements of the recipient organization." Three of the four agencies we visited reported that they did not need the cash advances provided by the Energy Office; advances for these three agencies totaled about \$2.7 million.
- **Landlord contributions.** Three of 27 files reviewed at four local agencies (11 percent) did not contain evidence that the local agency evaluated whether the landlord should contribute 50 percent toward the cost of weatherization services as required by Energy Office rules. Potential landlord contributions for these three files totaled \$1,900. In another two files (7 percent), the local agency did not document whether the Energy Office approved a waiver of the landlord contribution. If the Energy Office did not approve the waiver of these contributions, the local agency should have collected \$800. Finally, one local agency allowed the same staff person to: (1) determine the amount of the landlord contribution, (2) collect the landlord contribution, (3) bring the money collected back to the office, and (4) record the deposit. These practices increase the risk that funds could be misappropriated.
- **Quarterly financial status reports.** All four of our sample of federally-required quarterly reports prepared by the Energy Office and submitted to the federal government contained errors. Specifically, the Energy Office: (1) did not reconcile expenditures reported in COFRS with expenditures reported on quarterly reports, (2) underreported the recipient's share of expenditures by more than \$232,000 and the federal share of expenditures by almost \$23,000, and (3) recorded cash advances incorrectly, resulting in overstatement of expenditures in COFRS.
- **Expenditures.** The Energy Office has not defined the costs that should be charged to either administration or program operations, which increases the risk that local agencies could be allocating these costs inconsistently or charging costs to administration in excess of the 10 percent limit set by federal regulation. Further, of 57 dwelling files reviewed at four local agencies, seven lacked adequate documentation for materials costs and six contained materials charges that were incorrect. These errors totaled \$905 in questioned costs.

Our recommendations and the responses from the Governor's Energy Office can be found in the Recommendation Locator and in the body of this report.

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**RECOMMENDATION LOCATOR**  
**Agency Addressed: Governor's Energy Office**

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<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Response</b>	<b>Implementation Date</b>
1	26	Ensure that procurement processes comply with federal regulations by implementing procedures to: (a) ensure all public hearings related to awards are held and public comment is considered prior to the issuance of letters or press releases announcing the winning bidders; (b) retain documentation related to the negotiated bid process for at least six years after the award has been made; (c) ensure that all evaluations of bids are documented, accurate and consistent; and (d) properly lock all spreadsheets used by bidders.	Agree	a. Implemented b. February 2011 c. Implemented d. Implemented
2	29	Ensure that local agencies prioritize weatherization services toward the neediest clients by: (a) requiring local agencies to submit a prioritization plan annually and (b) confirming that local agencies are prioritizing service delivery in accordance with their plans during monitoring and oversight visits.	Agree	July 2011
3	34	Establish and implement policies to: (a) prohibit local agencies from using inspectors to inspect work they have performed and (b) establish a risk-based process for selecting the sample of homes to review during the quality assurance monitoring visits.	Agree	July 2011
4	37	Continue to monitor the expenditure of Recovery Act funds for weatherizing homes. In the event that it does not appear that Recovery Act weatherization funding will be fully utilized, work with the local agencies to identify means of hiring additional weatherization subcontractors or explore other alternatives to increase capacity.	Agree	Implemented and Ongoing
5	42	Improve controls over cash advances by: (a) requiring that local agencies apply for and document their need for cash advances and (b) recouping advance amounts on a month to month basis.	Agree	July 2011

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**RECOMMENDATION LOCATOR**  
**Agency Addressed: Governor's Energy Office**

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<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Response</b>	<b>Implementation Date</b>
6	44	Improve cash controls over landlord contributions by strengthening policies and procedures to: (a) outline how local agencies should evaluate landlords' eligibility for contributions and determine the amount of landlord contribution due and (b) require segregation of duties over the determination of the landlord contribution and the collection of the payment at the local agency level.	Agree	July 2011
7	48	Improve controls over the preparation and submission of Financial Status Reports by: (a) performing reconciliations between COFRS and the Weatherization Program database at least quarterly; (b) reviewing all federal guidance and updating reporting procedures; (c) correcting all errors identified during the audit on reports submitted for the next quarterly reporting period; (d) maintaining documentation to support all amounts included in the reports; (e) properly recording cash advances as receivables; (f) ensuring that an authorized official approves and submits all reports; (g) strengthening supervisory review over reports; and (h) training staff on grant accounting and reporting and on COFRS.	Agree	a. April 2011 b. January 2011 c. March 2011 d. November 2010 e. November 2010 f. December 2010 g. January 2011 h. Immediately
8	52	Ensure that administration and program operations costs are recorded consistently and that costs charged to administration do not exceed the 10 percent limit by: (a) including specific examples of each type of cost in its guidance and provide the guidance to the local agencies and (b) reviewing a sample of costs charged to administration for adherence to the guidelines and consistency among the local agencies during monitoring visits.	Agree	July 2011

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**RECOMMENDATION LOCATOR**  
**Agency Addressed: Governor's Energy Office**

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<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Response</b>	<b>Implementation Date</b>
9	54	Improve controls over materials expenditures by: (a) informing the local agencies of requirements to charge costs correctly and maintain adequate supporting documentation; (b) instituting a policy requiring local agency supervisory review and signoff on reimbursement requests and supporting documentation; and (c) reviewing a sample of expenditures, supporting documentation, and supervisory signoffs for compliance with requirements during monitoring visits at local agencies.	Agree	a. July 2011 b. July 2011 c. December 2010
10	55	Comply with federal regulation by adding the CFDA number, program title, and applicable compliance requirements into all Weatherization Program contracts with local agencies.	Agree	July 2011

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# Overview of the Weatherization Assistance Program

## Chapter 1

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The Weatherization Assistance Program (Weatherization Program) was created nationwide under Title IV of the federal Energy Conservation and Production Act of 1976 during a period of high energy prices following the 1973 oil crisis. The Weatherization Program's goal is to reduce low-income households' utility bills by making long-term energy-efficiency improvements to homes, such as installing insulation, sealing leaks around doors and windows, and modernizing heating equipment. The Weatherization Program began in Colorado in 1992 as a result of a funding partnership between the U.S. Department of Energy, the Colorado Low-Income Energy Assistance Program (LEAP), and the Public Service Company of Colorado (now Xcel Energy). Federal funding primarily supports the program. At first the Weatherization Program focused on emergency and temporary measures, such as covering windows with plastic sheets and caulking and weather-stripping doors and windows. Today the program requires every home served under the program to be comprehensively analyzed to determine which energy conservation measures will be most cost-effective before any weatherization services are provided.

The Weatherization Program was one of the programs Congress identified for additional funding under the American Recovery and Reinvestment Act of 2009 (Recovery Act) to create jobs and promote recovery from the recent economic recession. At the time of enactment the Recovery Act was expected to direct approximately \$787 billion in federal funds towards the American economy (including some tax-breaks) over the next several years. As of March 2010 the Governor's Economic Recovery Team, which oversees the use of Recovery Act funds in Colorado, reported that state agencies in Colorado have been awarded nearly \$1.6 billion in Recovery Act funds. The Recovery Act is designed to:

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

The passage of the Recovery Act significantly affected the Weatherization Program. Specifically, the Recovery Act appropriated \$5 billion over a three-year period for the Weatherization Program nationwide, which represents about a 2,100 percent increase over the approximately \$225 million per year the program has received in recent years. With the large influx of monies into the Weatherization Program from the Recovery Act came expectations for great increases in the number of homes weatherized per state and for that increase to occur very quickly. Because the program already had infrastructure in place and had been providing services since the late 1970s, the expectation was that the Weatherization Program could be used to create jobs quickly and that the Recovery Act monies would be well used to further conserve energy.

The Colorado Weatherization Program is scheduled to receive \$79.5 million in Recovery Act funding, which is available to cover expenditures incurred between June 15, 2009, and March 31, 2012. The Recovery Act monies allowed the State to weatherize many more homes and increased the Weatherization Program expenditures in Colorado by about 180 percent, from an average of \$11.5 million between Fiscal Years 2006 and 2009 to \$32.2 million in Fiscal Year 2010. The following table shows the increase in the number of homes weatherized annually, the average dollar amount spent per home, and the percentage change between Fiscal Years 2006 and 2010:

<b>Weatherization Program Local Agency Activity Fiscal Years 2006 through 2010</b>						
	<b>Fiscal Year 2006</b>	<b>Fiscal Year 2007</b>	<b>Fiscal Year 2008</b>	<b>Fiscal Year 2009</b>	<b>Fiscal Year 2010</b>	<b>Percent Change 2006-2010</b>
Number of homes weatherized	3,899	4,224	3,879	3,631	7,440	91%
Average dollar amount spent per home	\$2,371	\$2,431	\$2,495	\$2,870	\$3,848	62%
<b>Source:</b> Data provided by the Governor's Energy Office.						

As is illustrated in the table above, the average dollar amount spent per home increased 62 percent between Fiscal Years 2006 and 2010. However, the number of homes weatherized in Colorado increased significantly, representing a 91 percent change between Fiscal Years 2006 and 2010.

## Weatherization Assistance Program

The Weatherization Program is intended to help revitalize communities by spurring economic growth and reducing environmental impacts. A March 2010 study conducted for the U.S. Department of Energy estimates that the Weatherization Program results in an average annual savings in heating and cooling bills of about \$440 per household and that each weatherized home reduces annual carbon dioxide emissions by an average of 2.65 metric tons, or about 50 percent of the average annual carbon dioxide emissions of a medium sized vehicle.

As mentioned previously, the Weatherization Program's goal is to improve the energy efficiency of dwellings occupied by people who meet certain income guidelines, thereby decreasing energy costs for low-income households. For the Fiscal Year 2010 grant awards, a dwelling is eligible for services if the people living there meet one of three criteria: (1) the total household income is at or below 200 percent of the federal poverty level (as of April 2010, 200 percent of the federal poverty level for a family of four is \$44,100); (2) one household member is eligible for or has received Temporary Aid to Needy Families (TANF), Social Security Income, Medicaid, or Aid to the Needy Disabled within the past 12 months; or (3) the household is eligible for the Low-Income Energy Assistance Program (LEAP).

In Colorado, the Governor's Energy Office (Energy Office) administers the Weatherization Program. The Energy Office contracts with local agencies to implement weatherization activities in 10 regions across the state. These local agencies receive Weatherization Program funding to conduct weatherization work using either their own resources or by contracting with local contractors. While the local agencies are responsible for providing the weatherization services, under federal regulations the Energy Office is responsible for oversight of the local agencies and the program as a whole. In Fiscal Year 2010, Colorado awarded 11 contracts to local agencies to conduct weatherization activities throughout the state. Ten of these contracts are for local agencies to provide weatherization services in a specific region; the last contract is for one local agency to provide weatherization services statewide for multi-family dwellings only. A map showing the 10 different weatherization regions and identifying the local agency that serves each region is located in Appendix A.

The Energy Office awards Weatherization Program grants to local agencies according to criteria set forth in federal regulations. These criteria include the local agency's (1) experience performing weatherization, (2) experience assisting low-income people, and (3) ability to conduct weatherization activities in a timely and effective manner. The local agencies are responsible for implementing a wide range of program activities, including:

- **Accepting applications and determining dwelling units' eligibility.** A dwelling unit includes single-family homes as well as single units within multi-family buildings. As noted previously, a dwelling unit is eligible if the family residing there earns 200 percent or less of the federal poverty level, or if a household member is eligible for or received Aid to the Needy Disabled, Medicaid, Social Security Income, or TANF in the last 12 months, or is eligible for LEAP. According to state regulation [9 C.C.R. 3.752.28], LEAP recipients must agree to receive weatherization services if they are contacted by a local agency. To help identify those eligible in the state, local agencies receive a list of LEAP clients from the Energy Office updated monthly that the local agencies are required to use to make eligibility determinations. The local agencies are responsible for notifying applicants regarding whether or not they are eligible for services under the Weatherization Program.
- **Organizing and prioritizing a waitlist.** The Energy Office requires all local agencies to maintain and manage a waitlist of eligible applicants. As of February 2010 eligible applicants waited an average of two and a half months between the date of their application and the date they received weatherization services.
- **Conducting energy audits of eligible homes.** After determining eligibility, the local agency conducts an energy audit on an eligible dwelling unit. This audit includes identifying air leakages, examining heating system operation, and identifying health and safety hazards in the home. Health and safety hazards can include a cracked heat exchanger in a furnace, lead paint, and existing mold and asbestos.
- **Providing weatherization services.** After the energy audit is completed, the local agency provides weatherization services. As mentioned earlier, these services can include caulking, insulation, installation of compact florescent light bulbs, and replacement of the refrigerator or furnace. The total cost of the weatherization services cannot exceed a statewide average of \$6,500 per house effective March 2009; the Recovery Act increased this from the previous limit of an average of \$3,000 per house. This higher limit will remain in place after the Recovery Act monies expire, unless the federal law governing the Weatherization Program is changed.
- **Inspecting the quality of the work.** Once the weatherization work is completed, the local agency sends an inspector to the home to review the quality of the work and identify any deficiencies.

According to U.S. Department of Energy program guidance issued in November 2007, the Energy Office must comprehensively monitor the performance of all

local agencies. This monitoring includes conducting a physical inspection of at least 5 percent of all dwellings weatherized each year to ensure that the work complies with federal regulations.

Federal regulation [Section 10 CFR 440.21(d)] requires that weatherization materials installed be cost-effective. Cost-effectiveness means that the materials installed must result in energy cost savings that equal or exceed the cost of the materials, installation, and on-site supervisory personnel over the lifetime of the materials, discounted to present value. States have the option of requiring additional related costs to be included in the determination of cost-effectiveness. Cost-effectiveness is often reflected in a savings-to-investment ratio of at least 1:1, meaning that the resulting savings from the work should be at least equal to the amount spent on the work. The U.S. Department of Energy gives discretion to state weatherization programs for determining how they will ensure that they comply with this requirement. To assist with meeting this requirement, the U.S. Department of Energy developed the National Energy Audit Tool (NEAT) to determine the types of weatherization measures that are cost-effective in single-family homes and small multi-family buildings with fewer than five units. The U.S. Department of Energy also developed the Manufactured Home Energy Audit (MHEA) tool to identify the types of weatherization measures that are cost-effective for mobile homes. In lieu of using the NEAT and MHEA tools, state weatherization programs may develop their own priority lists of weatherization measures that assess cost-effectiveness. These lists must be approved by the U.S. Department of Energy every five years. Prior to June 2010 the Colorado Weatherization Program used the U.S. Department of Energy-established tools and its own priority lists to evaluate cost-effectiveness. Beginning in June 2010 the Energy Office is using only the NEAT and MHEA tools.

## Program Funding

As noted previously, the Energy Office administers the State's Weatherization Program. The Energy Office receives funding for the program from four different sources, which include: (1) federal funds under the original Weatherization Program through the U.S. Department of Energy, (2) federal funds under the Recovery Act for the Weatherization Program through the U.S. Department of Energy, (3) federal funds under the LEAP program transferred from the Colorado Department of Human Services, and (4) rebates that the Energy Office receives from public utility companies as a result of weatherization improvements. These funding sources are described below.

- **Federal funds under the original Weatherization Program.** As mentioned earlier, since the late 1970s the U.S. Department of Energy has distributed weatherization grants to all 50 states, the District of Columbia, U.S. territories, and Indian tribes. The U.S. Department of Energy awards

yearly grants to the Energy Office based on a complex formula that considers, in part, the state's climate and the number of households living at or below 200 percent of the federal poverty level. Between Fiscal Years 2006 and 2010, the Energy Office expended an average of \$6.1 million in federal funds from this funding source annually. In Fiscal Year 2010, the Energy Office expended \$7.5 million in federal funds from this funding source.

- **Federal funds under the Recovery Act for the Weatherization Program.** In 2009, additional federal funds became available for a limited time to fund the Weatherization Program. These monies are distributed through the U.S. Department of Energy using the same methodology as the original Weatherization Program funds. Some changes were made to program requirements under the Recovery Act; these requirements are discussed later in this chapter. In Fiscal Year 2010, the Energy Office expended \$17.2 million in federal funds from this funding source.
- **Federal funds under the Low-Income Energy Assistance Program (LEAP).** The Colorado Department of Human Services annually allocates a portion of LEAP funds to the Energy Office to be used for the Weatherization Program. LEAP is a federal program designed to assist low-income households in meeting their immediate home energy needs, primarily by assisting with households' winter heating bills; however, federal regulations allow up to 15 percent of a state's LEAP funds to be used for the state's weatherization program. The Energy Office includes LEAP funds in the monies allocated to local agencies to provide weatherization services. The Energy Office does not retain any of these monies for its administration or operations. The local agencies expended an average of about \$5.3 million in federal LEAP funds from this source annually between Fiscal Years 2006 and 2010. In Fiscal Year 2010, the Energy Office expended \$4.9 million in federal LEAP funds from this funding source.
- **Utility rebates received from public utility companies.** Statute [Section 40-3.2-103 and 104, C.R.S.] requires utilities to invest a certain percentage of their total profit into managing energy consumption by the energy customer, including low-income customers. Each year, the Colorado Public Utilities Commission determines the amount of the utility companies' profits that will be allocated to the Weatherization Program. The Energy Office has agreements with the participating utility companies establishing a rebate program for specific weatherization services. When local agencies install weatherization improvements eligible for rebates, the public utility that serves the dwelling receiving the improvement pays the

applicable rebate to the Energy Office. The Energy Office then passes the rebate on to the appropriate local agency and uses the rebates to reduce the amount of federal funds needed to reimburse local agencies for weatherization services. Utilities have paid an average of \$2.4 million in rebates annually between Fiscal Years 2006 and 2009. In Fiscal Year 2010, utilities paid about \$2.6 million in rebates.

The Energy Office makes funding allocations to local agencies across the state on the basis of the number of eligible households in each of the 10 regions. The Energy Office includes the allocations in the State Weatherization Plan, which must be approved annually by the U.S. Department of Energy. The State Weatherization Plan outlines the Energy Office's goals for the Weatherization Program, including how many homes will be weatherized annually, what the average cost per home will be, and which local agencies will provide weatherization services statewide.

The following table shows the program's total expenditures for Fiscal Years 2006 through 2010. Because the Energy Office receives federal funds based on its requests for reimbursement of weatherization expenditures, federal revenues are basically equal to the expenditures for the program, excluding the rebates.

<b>Governor's Energy Office Weatherization Program Expenditures Fiscal Years 2006 through 2010</b>						
	<b>Fiscal Year 2006</b>	<b>Fiscal Year 2007</b>	<b>Fiscal Year 2008</b>	<b>Fiscal Year 2009</b>	<b>Fiscal Year 2010</b>	<b>Percent Change 2006-2010</b>
Administration <sup>1</sup>	\$351,400	\$298,600	\$303,600	\$431,800	\$1,075,100	206%
Training and Technical Assistance	223,600	177,800	151,000	196,500	622,900	179
Leveraging Activities <sup>2</sup>	309,900	403,800	478,300	513,700	390,100	26
Grants to Local Agencies <sup>3</sup>	9,767,000	11,428,800	9,787,100	10,569,700	27,565,900	182
Utility Rebates <sup>4</sup>	0	0	0	475,100	2,589,200	n/a
<b>Total Expenditures</b>	<b>\$10,651,900</b>	<b>\$12,309,000</b>	<b>\$10,720,000</b>	<b>\$12,186,800</b>	<b>\$32,243,200</b>	<b>203%</b>

**Source:** Office of the State Auditor's analysis of data in the Colorado Financial Reporting System (COFRS).

<sup>1</sup> Includes expenditures for monitoring and oversight, travel for monitoring visits, phone, and rent expenses.

<sup>2</sup> Includes the recruitment of utilities to provide rebates for the program, program outreach, and maintaining relationships with the utilities.

<sup>3</sup> Includes all local agencies' expenditures in all categories for the year.

<sup>4</sup> Certain weatherization services are eligible for rebates from public utility companies. These rebates are forwarded to the appropriate local agency and offset the reimbursement requests from the local agencies. Utility rebates were provided directly to the local agencies until the last quarter of Fiscal Year 2009, when the Energy Office began collecting the rebates directly from the utility companies. Only the utility rebates collected since the last quarter of Fiscal Year 2009 are included in this table.

As the table above shows, annual Weatherization Program expenditures ranged between \$10.7 million and \$32.2 million between Fiscal Years 2006 and 2010. The influx of federal funds under the Recovery Act for the Weatherization Program has resulted in about a 200 percent increase in expenditures in Fiscal Year 2010 over those in Fiscal Year 2006. As of the end of June 2010, the Energy Office had expended more than \$18.2 million in federal funding under the Recovery Act for the Weatherization Program, or about 23 percent of the \$79.5 million that Colorado will receive in federal funding for the Weatherization Program under the Recovery Act.

As mentioned above, some changes were made to the Weatherization Program under the Recovery Act. The table below illustrates these changes. Specifically, the Recovery Act increased the income eligibility threshold and increased the amount of money available per home for weatherization services. It also added a requirement that programs pay some staff delivering weatherization services—including those doing construction, alteration, or repair to the dwellings—a prevailing wage, termed the Davis-Bacon wage requirement, as determined by the

U.S. Department of Labor. The Davis-Bacon wage requirement only applies to weatherization services paid for with Recovery Act monies and does not apply to services purchased through other funding sources, such as those paid for with weatherization funds under the original federal grant program.

<b>Comparison of Weatherization Program Requirements Before and After Recovery Act Implementation</b>		
	<b>Prior to the Recovery Act</b>	<b>Under the Recovery Act</b>
<b>Household Eligibility</b>	185% of the federal poverty level	200% of the federal poverty level
<b>Average Amount of Funding Available Per Home</b>	\$3,000	\$6,500
<b>Davis-Bacon Wage Requirement</b>	No	Yes
<b>Source:</b> Office of the State Auditor analysis of the American Recovery and Reinvestment Act of 2009 and federal requirements issued by the U.S. Department of Energy for the Weatherization Program.		

The changes to household eligibility and average funding available per home under the Recovery Act were made to the federal laws governing the Weatherization Program. Therefore, once the Recovery Act funding expires these changes will continue unless repealed by federal law. The Davis-Bacon wage requirement only applies to the Recovery Act funds and expires when Recovery Act funding ends.

## **Audit Scope and Methodology**

In accordance with the intent of the Recovery Act to ensure accountability for taxpayer funds, the Colorado Office of the State Auditor (OSA) is conducting a series of performance audits focusing on the review of Recovery Act expenditures. These audits are designed to provide Colorado taxpayers with an assessment of state agencies’ internal controls over Recovery Act expenditures to ensure that expenditures are proper, allowable, and reasonable under state and federal requirements. The audits are intended to provide greater state-level accountability for the large influx of federal money from the Recovery Act and complement financial audits conducted by the OSA that include Recovery Act funds.

Our audit reviewed the State’s administration of the Weatherization Program for compliance with federal and state laws and regulations and federal grant requirements, including those requirements set forth by the federal Single Audit Act. This review included evaluating program activities and related controls in

place at the Energy Office that are intended to ensure program objectives are met. We reviewed areas such as the Energy Office's procurement process, the process for making payments to local agencies, monitoring local agencies performance, and management of grant data and information. As a part of this audit, we interviewed Energy Office staff and collected and analyzed data from the Energy Office, including data from the Energy Office's database. We visited four local weatherization agencies in different regions of the state to interview staff and review files and expenditures for weatherization services. This audit did not include a review of the Energy Office's allocation of grant funds among regions or outreach activities; utility rebates; or whether weatherization materials were properly installed or complied with zoning or building codes.

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# Program Accountability

## Chapter 2

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Every program that receives and utilizes public funds is accountable for developing a system of internal controls that provides reasonable assurance that the program achieves the objectives of (1) effective and efficient operations, (2) compliance with laws and regulations, (3) reliable financial reporting, and (4) reasonable and allowable expenditures. Federal laws and regulations that govern the use of public funds establish the requirement for internal control systems. Controls are dynamic and represent a series of ongoing actions and activities that occur throughout a program's operations and instill a culture of accountability. Further, control systems are crucial to accomplishing a key purpose of the Recovery Act, which is to ensure that taxpayer dollars are spent with transparency, accountability, prudence, and effectiveness.

According to federal law, the purpose of the Weatherization Program is to reduce the burden of energy prices for disadvantaged individuals and families. To that end, the program intends to provide weatherization services to the greatest number of eligible households within available resources. To accomplish these goals, the Energy Office is accountable for the Weatherization Program in two key ways: first, for ensuring program funds are used efficiently and in accordance with federal rules and regulations, and second, for ensuring the quality and safety of the services provided. To provide this accountability, the Energy Office must have adequate controls in place to oversee all aspects of the Weatherization Program, from selecting local agencies to evaluating local agency work.

As mentioned earlier, the Weatherization Program is administered by the State through the Energy Office and implemented locally. The process of delivering weatherization services includes:

- **Procurement.** The State is responsible for soliciting bids for and selecting local agencies to provide weatherization services. The procurement process is important for ensuring that the most qualified bidder is selected.
- **Prioritization.** The State is responsible under federal regulations for having methods to prioritize weatherization services so that the neediest of clients are served with the limited resources available. Although the Energy Office has delegated this activity to the local agencies, under federal regulations the Energy Office is ultimately responsible for meeting this requirement.

- **Quality Assurance.** The State is responsible for monitoring the work of the local agencies. Federal guidance requires that the Energy Office review at least 5 percent of all the homes weatherized in the state annually to ensure that the services are provided according to standards. Additionally, the Energy Office is required to review local agency administration activities for compliance with federal and state rules. Finally, federal regulations require local agencies to inspect the weatherization work once it is completed.
- **Financial Administration.** The State is responsible for ensuring that the local agencies have adequate documentation of their expenditures, reimbursements to local agencies are accurate, adequate controls are in place to prevent misuse and misappropriation of grant funds, and reports submitted on the use of grant monies to the U.S. Department of Energy are accurate.

We reviewed the Energy Office's administration of the Weatherization Program and identified concerns with the controls for ensuring accountability for both the programmatic and financial operations of this program. In this chapter, we discuss our issues with the programmatic aspects of the Weatherization Program, including the procurement, service prioritization, quality assurance processes, and program infrastructure. We discuss our findings related to financial management in the last chapter.

We identified three areas where the Energy Office's practices for ensuring programmatic accountability could be strengthened. First, since the Energy Office has chosen to use a competitive procurement process, it should use a process that ensures that the most qualified bidders are selected to provide services. Second, the Energy Office should establish effective processes to ensure that eligible individuals most in need are prioritized for services. Third, the Energy Office should improve its monitoring of local agencies to ensure that the services provided are high quality. Finally, we found that the Energy Office will need to continue monitoring the rate of expenditure of Recovery Act monies to ensure that those funds will be fully utilized prior to their expiration. We discuss these issues in the remainder of this chapter.

## Procurement

Given that the Energy Office has delegated to local agencies comprehensive responsibilities related to implementing the Weatherization Program, the State's duty to select high quality local weatherization providers is paramount to meeting program goals. Federal regulations [Section 10 CFR 440.15] specify that a qualified local weatherization agency must be a Community Action Agency or other public or nonprofit entity. Community Action Agencies include nonprofit

private or public organizations established under the Economic Opportunity Act of 1964 to help people achieve self-sufficiency. Federal regulations also outline the basic requirements for selecting a qualified local agency. Regulations require that these local agencies must be selected on the basis of:

- a process that provides for public comment,
- experience and performance in weatherization or housing renovation activities,
- experience in assisting low-income persons in the area to be served, and
- capacity to undertake a timely and effective weatherization program.

Federal regulations do not require states to select qualified local agencies through a competitive procurement process.

According to the Energy Office, the State has historically made local agency selections using a noncompetitive procurement process due to the lack of weatherization service providers in Colorado. Under a noncompetitive procurement, the Energy Office does not open up the process to outside vendors; instead, the Energy Office negotiates the terms of the contract with the existing local agency. The contract is renewed if the Energy Office and the local agency come to agreement on the contract terms and if the local agency is in good standing. Prior to Fiscal Year 2010, the noncompetitive procurement process was conducted annually with each local agency and the contract term was one-year.

Beginning in Fiscal Year 2010 the Energy Office initiated a new policy requiring formal procurement and contract renewal annually for the contractors providing services in the 10 geographic regions and for a provider of multi-family services. Under the new procurement process, the Energy Office competitively bids every service area once every four years and executes a one-year contract with the selected local agency. Additionally, the Energy Office competitively bids services for any region in which the local agency currently under contract has been placed on a special conditions plan due to poor performance within the 12 preceding months of the request for applications release date. The special conditions plan outlines the steps the local agency must take in order to improve its performance and be considered for an award during the competitive bid process.

Annually, during the intervening years, the Energy Office uses the noncompetitive, negotiated procurement process described above to renew the contract with the existing local agency, as long as the local agency has not been placed on a special conditions plan due to poor performance. The noncompetitive, negotiated procurement process allows the Energy Office to retain a qualified local agency that the Energy Office has determined, through its monitoring visits, is operating an effective weatherization program. By retaining

existing, qualified local agencies in intervening years, the Energy Office does not have to devote resources to identifying and training new weatherization service providers. In Fiscal Year 2010 the Energy Office selected five of its local agencies through a competitive bidding process and renewed its contracts with the remaining six local agencies through a noncompetitive, negotiated procurement process. By Fiscal Year 2014, the Energy Office expects that all 11 local agencies will have been selected at least once through a competitive bidding process and the four-year procurement cycle will begin again.

The Energy Office initiates the competitive procurement process by making a public request for applications on its website and in the local media in a designated weatherization region. At the end of the application period, the Energy Office review committee reviews, scores, and ranks the applications. The U.S. Department of Energy requires that the Energy Office give the local agency additional points during the competitive bid scoring process if the local agency that currently administers the weatherization program applies, and the Energy Office has determined through its monitoring and oversight activities that the local agency is running an effective weatherization program. Therefore, a local agency that is performing well could have an advantage over other, inexperienced bidders. According to the Energy Office, the review committee then ranks the bidders, holds a public hearing, and makes a selection.

We reviewed the Energy Office's negotiated and competitive procurement processes to determine whether the processes were in compliance with applicable rules and regulations and whether these processes ensured that the most qualified weatherization service providers are selected. Overall, we found that the Energy Office should improve its procurement process to ensure that the best weatherization service provider is selected and that the selection process is adequately documented. Specifically, we found that the Energy Office should strengthen its processes by: (1) obtaining public input for selecting bidders and using that input in its award decisions and (2) improving documentation of its bid evaluations and award process. We discuss these issues in the following sections.

## **Public Hearing and Comment**

Federal regulation [Section 10 C.F.R 440.15] requires that each state weatherization program select its local agencies on the basis of comments it receives during a public hearing, along with other factors noted previously. The public hearing and comment period provides an opportunity for the public to review and discuss potential weatherization service providers and the provider's role in the community. Federal regulation further states that a public hearing and comment period should be conducted in accordance with the State Weatherization Plan. Each state must submit and receive approval for its State Plan from the U.S. Department of Energy before federal weatherization grants can be awarded.

We reviewed the procurement processes for two regions the Energy Office awarded through a competitive bid process in Fiscal Year 2010. We found that the Energy Office conducted formal evaluations, sent grant award letters to two bidders (one bidder in each of two regions), and sent rejection letters to the other bidders in both regions prior to the public hearing and comment period, which is not in compliance with federal requirements. In total, eight bidders were rejected prior to the public hearing. The two awards for which award letters were sent were valued at \$1.1 million and \$9 million, respectively. In the first region, the Energy Office issued a press release announcing the region's award winner 17 days prior to the public hearing, and it sent out award and rejection letters 21 days prior to the public hearing. In the second region, the Energy Office sent out award and rejection letters 44 days prior to the public hearing, but it did not issue a press release. The Energy Office's actions gave the appearance that a decision had been made prior to a public hearing being held. This compromised the purpose of the public hearing which is to ensure complete consideration of public input prior to award decisions being made. As a result of issuing award letters and a press release prior to the public hearing, the Energy Office may not have received full public input.

According to federal regulations, public comment is intended to ensure that the Energy Office receives additional information regarding the bidder's (1) experience providing weatherization services, (2) experience providing assistance to low-income people, and (3) capacity to undertake a timely and effective weatherization program. Complying with the public comment requirement reduces the risk that losing bidders may contest or litigate the award because they did not have opportunity to provide input at a public forum prior to the award decision. Furthermore, public comment provides the Energy Office with more complete information regarding the details of the bid and the views of stakeholders, which are important considerations when making award decisions. For example, the public hearing for one of the bids revealed an error in the budget of the winning bidder that understated the budget by about \$400,000, or 4 percent of the award's value of \$9 million. Following the public hearing, the Energy Office asked that the bidder rectify the error by correcting the budget; the Energy Office did not increase the contract amount to make up for the error. We discuss this issue in more detail in the next section.

To ensure a fair and equitable bidding process and compliance with federal regulations, the Energy Office should ensure that public hearings are held in the procurement process before award letters are sent and press releases are issued.

## **Award Documentation**

Maintaining complete records of all aspects related to the procurement process is important for complying with federal regulations, facilitating post-review of the

selection process, and defending against potential legal disputes. Federal regulations [10 CFR 600.144] require states to document the competitive and negotiated bid processes and specify that each grantee must make available for the U.S. Department of Energy pre-award review and procurement documents, such as requests for proposals or invitations for bids, when the procurement is to be awarded without competition. The State Archives Records Management Manual provides best practices for documenting the procurement process and states that agencies should keep all contract documentation, including proposals received and the evaluation process used for selecting contractors, for six years after the conclusion of the contract for successful bidders and for two years after the contract award date for unsuccessful bidders.

We reviewed the Energy Office's controls for the competitive and negotiated procurement processes that occurred in Fiscal Year 2010. Our review focused on the Energy Office's completion of bid processes for four regions: two competitive bid processes that resulted in the selection of new local agencies and two negotiated bid processes that resulted in new contracts with existing local agencies. We found three problems with the Energy Office's bid and award documentation in the regions we reviewed, which we outline in the bullets below.

- **Consistency of scoring documentation.** The Energy Office lacked consistent documentation to support the scores that were used as the basis for ranking and ultimately awarding competitive bids for six applicants in one region and five applicants in another region. Although the errors we identified did not ultimately affect the award outcomes, maintaining accurate records can help ensure that the review and evaluation process is equitable and enables the Energy Office to better defend against any legal disputes that may arise. As part of the competitive bid process, each evaluator was given a separate score sheet for each set of criteria. The Energy Office then compiled those individual scores into accumulated scores and ranked the bidders. We found that the accumulated scores used to determine the winning bidders did not correspond with underlying documentation associated with the individual evaluator score sheets. Out of a total of 747 scores, we found 28 discrepancies, or 3.7 percent. Seven out of the 11 bids (64 percent) we reviewed contained at least one error. The Energy Office reports that discrepancies in the evaluator bid score sheets occurred because individual evaluators changed their scores before the scores were accumulated and did not make corrections on the corresponding criteria score sheets. The Energy Office did not review the criteria score sheets against the accumulated scores to ensure consistency prior to making the awards.
- **Lack of documentation.** We found that the Energy Office did not retain records to substantiate its award decisions for the two negotiated procurement processes we reviewed. In both regions we reviewed, the

Energy Office only retained the initial application submitted and the final contract. Files for both negotiated procurement processes lacked documentation of correspondence, records of initial and subsequent negotiation discussions, and revisions to the initial application. The Energy Office reported that the documentation was missing because the electronic document retention system that it used to retain the documentation failed, and the information was lost. Although the Energy Office does not have a specific policy about retention of competitive or negotiated procurement documentation, it reports that, in practice, it maintains negotiated procurement documentation. Without this documentation the Energy Office is not in compliance with federal regulation.

- **Budget errors.** We reviewed the budget spreadsheets submitted by the winning bidders of competitive bidding processes in two regions. As noted earlier, for one of the bidding processes we found that the Energy Office did not identify errors in the budget spreadsheet submitted by one of the winning bidders. Instead, attendees at a public hearing to select the winning bidder for that region identified a \$400,000 error in the bidder's budget spreadsheet. The bidder changed the electronic budget spreadsheet provided by the Energy Office and, as a result, inadvertently changed the formulas so that the spreadsheet did not calculate the total cost of the bid correctly. As a result, the bidder's budget spreadsheet did not account for about \$400,000 in salaries. This error could have resulted in the Energy Office overpaying the local agency. The error occurred because the Energy Office did not properly secure the electronic spreadsheets to prevent bidders from changing the spreadsheets and causing calculation errors. Additionally, the Energy Office did not adequately review the budget spreadsheets for accuracy before finalizing its decision, which raises questions about the effectiveness and thoroughness of the Energy Office's bid evaluation process.

As noted previously, procedures for maintaining and reviewing procurement documentation are important for ensuring award decisions are based on accurate information, defending against any potential legal disputes, and complying with federal regulations. To improve the accuracy and retention of procurement documentation, the Energy Office should develop and implement a policy that mandates a review for accuracy of any documentation used in award decisions. The policy should also address record retention of notes made during negotiations, revisions to applications, correspondence between parties, or any other documentation related to negotiated procurement to ensure that all procurement decisions are fully supported. In addition, the Energy Office should provide training to evaluators so that the review process is effective in identifying and correcting errors in applications.

## **Recommendation No. 1:**

The Governor's Energy Office should ensure that its procurement process for competitive and negotiated bids complies with federal regulations by making award decisions with full information and keeping accurate documentation to support its award decisions. Specifically, the Governor's Energy Office should implement procedures to:

- a. Ensure all public hearings related to awards are held and public comment is considered prior to the issuance of letters or press releases announcing the winning bidders.
- b. Retain documentation of all discussions and meetings related to the negotiated bid process for at least six years after the award has been made.
- c. Ensure that all evaluations of bids are documented and that all supporting documentation, including scoring sheets, is accurate and consistent for decision-making purposes.
- d. Properly lock all spreadsheets used by bidders to prevent changes by bidders and enable accurate comparisons between the budgets of all bidders. Additionally, the Energy Office should train all evaluators on proper review practices to identify errors or omissions in applications.

## **Governor's Energy Office Response:**

The Energy Office has consistently employed, and continues to employ, a procurement process that complies with federal regulation and that ensures that no contracts are executed with potential subgrantees prior to a public hearing and the completion of a public comment period. The U.S. Department of Energy has directed the Energy Office to identify the leading bidder prior to the public hearing so that the public has the information necessary to focus its comments and provide meaningful feedback. The U.S. Department of Energy regulations are unclear with respect to the timing of award letters and notification to the media. Although the Energy Office issued award letters and media notification prior to the public hearing, no award is final until contract has been fully executed and signed by the Office of the State Controller.

- a. Agree. Implementation date: Implemented.

As directed by federal regulation [Section 10 CFR 440.14] the Energy Office must identify a list of all proposed subgrantees not less than ten

(10) days prior to the public hearing. The Energy Office has now clarified that the proposed subgrantee is referred to as a “leading bidder” and not a “winning bidder” consistent with these guidelines and the recommendation in 1(a). The Energy Office improved its “Request for Application” (RFA) process for all Weatherization Program RFA’s, beginning with the RFA’s held in March and April 2010. The process ensures that bidders participating in an RFA are notified by the Energy Office after the first proposal review by the Weatherization Program RFA Evaluation Committee whether or not they are a “leading bidder” prior to the public hearing notice being issued; after final consideration of public comments received at the public hearing, the Weatherization Program RFA Evaluation Committee then determines if the “leading bidder” is selected for the award and entered into the award contracting phase; no press release can be issued until after the public hearing has taken place and consideration of public comments are undertaken by the Weatherization Program RFA Evaluation Committee and a “leading bidder” is selected by the Weatherization Program RFA Evaluation Committee to enter into the award contracting phase of the RFA. It remains the policy of the Energy Office that no award is final until a contract is executed by the Office of the State Controller.

- b. Agree. Implementation date: February 2011.

The Energy Office will retain “Request for Application” (RFA) documentation of all discussions and meetings held by the Weatherization Program RFA Evaluation Committee for a period of not less than six (6) years after an award.

- c. Agree. Implementation date: Implemented.

The Energy Office has and will continue to document the evaluation of all bids submitted in a “Request for Application” (RFA) process. The Energy Office has the scoring sheets from the members of the Weatherization Program RFA Evaluation Committee reviewed by an individual outside of the Weatherization Program RFA Evaluation Committee to ensure accuracy of the scoring process and summary.

- d. Agree. Implementation date: Implemented.

Beginning in 2010 the Energy Office now locks all proposal spreadsheet templates utilized by bidders in the Request for Applications (RFA) process so there can be no inadvertent altering of the calculations. In February 2010 the Energy Office enlisted the services of an experienced weatherization program third party

contractor to independently review the RFA spreadsheets used by potential bidders in any future RFAs.

The Energy Office does conduct training for all members of a Weatherization RFA Evaluation Committee to provide a review of the RFA procedures that ensures the members of the committee are properly prepared to review and discuss the proposals submitted by the bidders in the RFA. The Energy Office held a Weatherization RFA Evaluation Committee orientation meeting on March 10, 2010, for the most recent 2010 RFA.

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## Service Prioritization

As stated earlier, the Weatherization Program's mission is to reduce energy costs for low-income residents. Because the need for services typically has outpaced the funding available to provide services, federal regulations specify that states must have an established method to prioritize weatherization services for various identified groups that are considered to be at the greatest risk and have the greatest need to reduce their energy costs. Federal regulations define these groups with the greatest need to include the elderly and disabled, high energy users, households with a high energy burden, and families with young children. States are allowed the flexibility to determine which of these high-priority groups to serve first and in what order. Currently the program has access to a large influx of Recovery Act monies and, as a result, the program can more easily ensure that everyone in need receives services within a relatively short period of time without prioritization. However after March 2012, when Recovery Act monies are no longer available to provide additional support, the Weatherization Program should be positioned to ensure that its high-priority service populations receive services first with the limited money available.

The Energy Office has established policies and procedures that allow local agencies some flexibility in determining service priorities. The policies specify that the most important priorities are the elderly, the disabled, and those most in need (as defined by the local agency). The Energy Office policy also encourages the local agencies to prioritize waitlists toward applicants with health and safety emergencies as well as toward those households with the greatest potential for reducing energy consumption. The policy further states that a first come, first served priority policy is not acceptable.

Every local agency has a waitlist that includes a list of interested and eligible applicants whom the local agency has yet to serve. Waitlist lengths vary by region and time period. With the Recovery Act funding, the Energy Office and local agencies anticipated that they would exhaust their waitlists and would not

have enough identified households to meet their promised service goals; thus, they began recruiting additional clients through the Low-Income Energy Assistance Program. The Energy Office reports that it nearly tripled its statewide waitlist numbers of interested and eligible applicants, and as of February 2010 the average wait time for services statewide was about two and a half months. Despite the significant increase in applicants waiting for services, the Energy Office is currently recruiting additional households in order to ensure that it meets its goals for the number of homes weatherized in Fiscal Year 2011.

We reviewed the prioritization policies and procedures at the Energy Office and at the four local agencies we visited to determine whether these agencies had a prioritization methodology in place and whether that methodology was ensuring that the highest-need clients are served first. We found that all four agencies lacked written policies outlining their methodologies for prioritizing clients. Further, three of the four agencies reported that, in practice, they do not prioritize clients or serve them in order of greatest need.

We determined that local agencies are not prioritizing clients as required because, although the Energy Office has a policy that gives the responsibility for prioritizing clients to the local agencies, the Energy Office has not ensured through its monitoring and oversight efforts that local agencies have implemented methodologies for prioritizing those most in need of services. The Energy Office reported that it does review for prioritization during its oversight visits; nonetheless, the Energy Office was not aware that some of the local agencies were not prioritizing services as required.

Although there may be sufficient weatherization funding available with the influx of Recovery Act monies to meet the current demand, the Energy Office needs to prepare local agencies to manage service delivery in a more targeted manner once this temporary funding is no longer available. To ensure that limited weatherization monies are being spent to effectively serve those most in need of weatherization services, the Energy Office should revise its policy to require local agencies to annually submit a prioritization plan to the Energy Office that outlines which of the federally accepted categories the local agency plans to prioritize and the order in which high-priority groups will be served. The Energy Office should then confirm that services are being prioritized in accordance with the prioritization plan during monitoring and oversight visits.

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## **Recommendation No. 2:**

The Governor's Energy Office should ensure that local agencies prioritize weatherization services toward the neediest clients as defined under federal regulations. Specifically, the Governor's Energy Office should:

- a. Require local agencies to submit a prioritization plan annually that specifies which federally accepted categories will be prioritized, the order of prioritization, and the method the agency will use to make certain that those categories of applicants are served before other categories.
- b. Confirm that local agencies are prioritizing service delivery in accordance with their plans during monitoring and oversight visits.

### **Governor’s Energy Office Response:**

- a. Agree. Implementation date: July 2011.

The Energy Office will revise its Weatherization Program Policy 301.4 to require all local agencies to prepare and submit an annual “prioritization plan” identifying how they will adhere to prioritization of eligible applicants.

- b. Agree. Implementation date: July 2011.

The Energy Office’s administrative monitoring process will be revised to include any revisions to Weatherization Program Policy 301.4, discussed above.

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## **Quality Assurance**

The Energy Office is responsible for performing effective oversight of the Weatherization Program and ensuring that the weatherization work conducted by the local agencies and their contractors is of high quality, in compliance with all rules and regulations, and installed in a manner that is safe for the residents. To accomplish this, the Energy Office must have comprehensive monitoring procedures to evaluate the work completed by local agencies and take remedial action when local agencies do not comply with requirements. The U.S. Department of Energy requires that all weatherization programs ensure that quality services are provided by having a comprehensive monitoring plan in place as part of each program’s State Plan. The monitoring plan must outline the program’s strategies for monitoring and measuring performance, including:

- Required monitoring visits to each local agency at least once per year to determine compliance with federal administrative and fiscal requirements and state policies and guidelines.

- Confirmation during monitoring visits that quality controls over the delivery of weatherization services are in place at the local agencies. This includes confirming that local agencies are conducting adequate inspections of their own weatherization work to ensure the work is of high quality and complies with federal standards.
- Annual state-level inspections of at least 5 percent of all of the homes weatherized statewide to ensure that services provided adhere to federal standards.

We reviewed the Energy Office's practices for complying with federal monitoring requirements and found that the Energy Office conducts monitoring reviews at each local agency bi-annually and that these reviews are generally adequate to ensure compliance with federal and state requirements and to confirm the existence of quality control systems over the delivery of weatherization services. Additionally, we found that the Energy Office is conducting state-level inspections on at least 5 percent of all the dwellings weatherized statewide, as required by federal standards. According to Energy Office records, during Fiscal Year 2010 the Energy Office conducted quality assurance reviews on 1,193 weatherized dwellings, or 16 percent of the total 7,440 homes weatherized statewide. However, we found two concerns with the Energy Office's quality assurance process: (1) the Energy Office does not prohibit local agency inspectors from inspecting their own work, and (2) the Energy Office allows local agencies to select the sample of homes that the Energy Office reviews for quality assurance. We discuss these issues in the next two sections.

## **Local Agency Inspections**

It is important for local agencies to have adequate quality controls in place over the delivery of weatherization services for two reasons. First, local agencies must ensure that the weatherization work is performed competently in order to produce the intended savings in energy costs once the services are complete. Second, local agencies must ensure that weatherization services are installed in a manner that is safe for the residents. Without these quality controls, there is no assurance that the services provided accomplish those goals.

The local agencies inspect the weatherization services they provide from beginning to end. First, the local agency inspectors review the energy audit conducted to ensure that the energy auditor did not fail to recommend needed services that would qualify under the cost-effectiveness requirement. To make this determination, the inspector typically conducts a second energy audit that serves as a review of the first. Second, the inspector reviews all of the work done on the home to ensure that everything identified in the energy audit was provided and that the work complies with federal standards. This includes: (1) using an

infrared camera to look into walls and ensure the proper amount of insulation was blown in; (2) going into any crawl spaces and other accessible areas to ensure that the proper amount of insulation was blown into the space and that the requirements for installing any vapor barriers were met; and (3) reviewing any appliances installed to ensure that they were installed properly and, in the case of furnaces, that no leaks are present. If any deficiencies are found, the inspectors ask the workers to return to the house and correct the problems before signing off on the work.

We reviewed 45 project files at four local agencies to evaluate the quality controls in place over the delivery of weatherization services. For six of the 45 dwellings we reviewed, or 13 percent, we found that the local agency inspectors conducted some of the weatherization work on the dwellings they later inspected. This represents a lack of segregation of duties because the same personnel are both performing the work and inspecting it for adherence to standards, which raises concerns about whether the local agencies' inspections are reliable for ensuring quality of services. Further, for an additional 12 of the 45 dwellings, or 27 percent, the agency did not track information about who conducted the work on the home in the file. Therefore, the problems raised by lack of segregation of duties could be more prevalent.

It is important for the Energy Office and local agencies to ensure that the person who inspects the weatherization work is not the same person who performed the weatherization service. By segregating these duties, local agencies will be more likely to identify problems and address them, preventing consequences that could be potentially serious. We spoke to representatives of four weatherization programs in other states. Three of the four weatherization programs had statewide policies that require segregation of duties between the workers performing weatherization work and those inspecting the work. The fourth state, which did not have a formal policy related to segregation of duties, reported that it monitored for any overlap of these duties.

Since the Energy Office is only required to conduct state-level inspections on 5 percent of the dwellings weatherized statewide, the local-level inspections are vital to ensure that the work conducted by the local agencies is in accordance with federal guidance and is of high quality and that residents are safe after work is completed. To address these concerns, the Energy Office needs to develop a policy to ensure that work is inspected only by qualified inspectors who did not perform the work and that local agencies are adhering to the policy.

## **State-Level Inspections**

As mentioned earlier, federal regulation requires the Energy Office to inspect at least 5 percent of the homes weatherized in the state annually. This requirement

is in place to further ensure that weatherization work is complete and of high quality and to verify that the local agency inspection process is adequate. State-level inspections are typically the only third-party reviews that occur. These reviews provide the local agencies with performance feedback and can help the Energy Office staff identify areas in which they need to train local agencies or improve the provision of weatherization services.

The state-level quality assurance process is accomplished in much the same way as the local inspection process. The Energy Office has staff members who are trained as inspectors and who review a sample of homes weatherized in each region annually. The state-level inspectors begin by conducting a second energy audit to ensure that all of the services that the dwelling is eligible for under the cost-effectiveness requirements were provided. Then the state-level inspectors review all of the weatherization services installed to ensure that they comply with federal standards. State-level inspectors also use infrared cameras to inspect insulation, and they review the installation of appliances in the same manner as the local inspectors. At the end of each state-level quality assurance review, the Energy Office provides the local agency a report that includes its findings. If the state-level inspectors find problems with the services provided, they require the local agency to redo the work. Additionally, if the state-level inspectors identify major problems or a significant number of problems, the Energy Office may determine that the overall quality of the work performed by the local agency is of concern. In that case, the Energy Office will put the local agency on special conditions, which are similar to a corrective action plan.

We reviewed the process the Energy Office uses to select homes for inspection as part of the 5 percent inspection requirement. Although Energy Office policies state that Energy Office staff “will notify [local agencies] in advance of which units are to be inspected,” we found that the Energy Office does not select the homes it inspects. Two of the four local agencies we visited reported that the Energy Office allows them to select the dwellings that the Energy Office reviews during its monitoring visits.

To effectively monitor local agency work, the Energy Office must randomly select the dwellings it chooses to review. By not independently selecting a random sample of completed weatherized dwellings for quality assurance reviews, the Energy Office increases the risk for substandard work. Additionally, by not selecting its own sample, the Energy Office increases the risk that fraud or abuse could occur at the local agency and go undetected. For example, local agencies could perform inadequate work or not perform the work at all on some homes and still request reimbursement, if the local agencies believe they can direct the Energy Office to inspect other homes without deficiencies.

Quality assurance reviews are a critical tool for identifying problems with weatherization construction. For example, in Fiscal Year 2010 the Energy Office

conducted a quality assurance visit to one local agency and found serious problems with the quality of the local agency's work. The local agency was put on special conditions because the Energy Office found, among other things, that the local agency had weatherized a home but did not detect that the home had a furnace with a carbon monoxide leak, thus putting the residents at great risk. The Energy Office identified the problem when it conducted its quality assurance review on the home. Had the Energy Office not conducted this review and identified this problem, the residents could have suffered serious health problems and possibly even death.

The Energy Office reports that it allows the local agencies to select the homes for its monitoring reviews because contacting homeowners and renters to schedule the visits is time consuming, and the local agencies have often developed relationships with the occupants and can more easily arrange a visit. However, the Energy Office can still use the local agencies to facilitate the scheduling process without allowing them to select the home that will be inspected. Additionally, by selecting the homes for quality assurance reviews itself, the Energy Office has the opportunity to target the sample based on risk, using information about local agencies' performance to inform the selection of homes that will be inspected. Specifically, the Energy Office could visit more homes where the local agency has had difficulty meeting quality standards and problems are more likely to be found.

As mentioned earlier, the Energy Office is tasked with managing a grant program with 11 local agencies in 10 regions, and quality assurance is an essential component of program management. The Energy Office should improve controls over the quality assurance review process and ensure that weatherization grant monies are spent effectively by establishing adequate segregation over the inspections conducted by local agencies and by establishing its own process for selecting the homes on which it conducts quality assurance reviews.

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### **Recommendation No. 3:**

The Governor's Energy Office should strengthen its monitoring practices to ensure that local agencies provide high-quality weatherization services. Specifically, the Energy Office should establish and implement policies to:

- a. Ensure appropriate segregation of duties by prohibiting local agencies from using inspectors to perform inspections on work they have performed.
- b. Establish a process for selecting the sample of homes that it will review during the quality assurance monitoring visits. This process should

consider risk factors, such as consideration of local agencies' performance, in determining which homes should be selected for inspection.

### **Governor's Energy Office Response:**

- a. Agree. Implementation date: July 2011.

The Energy Office has drafted and will implement Weatherization Program Policy 801, section 17, prohibiting local agency inspectors from inspecting their own work.

- b. Agree. Implementation date: July 2011.

The Energy Office has currently implemented a process for selecting a random sample of weatherized units to be inspected by the Energy Office's quality assurance personnel. The selection process will be documented in each inspection report.

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## **Program Infrastructure**

The Recovery Act provided the federal Weatherization Assistance Program a large influx of monies with the expectation that the program would be able to rapidly increase the number of homes weatherized nationwide. Because the program already had infrastructure in place and had been providing services since the late 1970s, the expectation was that the infrastructure could be used to create jobs quickly and that weatherization projects would result in increased energy conservation.

As noted previously, the Energy Office is scheduled to receive \$79.5 million in Recovery Act monies to spend on weatherization services in Colorado between June 2009 and March 2012. The Energy Office developed a plan to ensure that it spent the funds within the allotted time period that allowed for an initial period of ramping up services while building capacity, and then a period of increased production during Fiscal Years 2011 and 2012, the last two years it would receive Recovery Act funding. In keeping with the U.S. Department of Energy's guidance to increase both the amount of money it planned to spend per home and the number of homes it planned to weatherize, the Energy Office instructed the local agencies to ensure that they installed all measures that had a savings-to-investment ratio of 1:1.

We reviewed the Energy Office's State Plan for utilizing the Recovery Act monies, as well as the number of homes weatherized and the dollars spent per home with Recovery Act funding through August 2010. We found that while the Energy Office's level of spending for July and August 2010 indicates that it is currently on track for spending all the funds by the end of the funding period, it faces some challenges that may need to be addressed in order to sustain the current level of local agency production. Specifically, if the Energy Office continues to spend its current average of \$3,850 per home, the Energy Office will need to weatherize about 16,000 homes between July 2010 and March 2012, or about 762 homes per month. This is a 23 percent increase over the 620 homes weatherized per month statewide during Fiscal Year 2010.

To meet this goal, the Energy Office may need to increase both the capacity of the local agencies to weatherize homes and the number of identified eligible dwellings statewide. With respect to increasing local agency capacity, the Energy Office reports that one challenge it faces is finding enough qualified subcontractors to help the local agencies increase the amount of weatherization work they can perform. According to the Energy Office, finding qualified subcontractors is challenging for the following reasons:

- **Weatherization standards.** The U.S. Department of Energy has standards for weatherization work that are different from other industry standards. For example, when blowing insulation into a ceiling, the U.S. Department of Energy specifies how deep the insulation must be and what needs to be covered and sealed in the process; standard industry practices do not include all of these specifications. The Energy Office reports that it takes time to find and train qualified subcontractors so that they are able to meet the installation standards set forth by the federal government.
- **Davis-Bacon wage requirement.** The Recovery Act requires that the Weatherization Program pay staff delivering services paid for with Recovery Act monies a prevailing wage, termed the Davis-Bacon wage requirement, as determined by the U.S. Department of Labor. The local agencies we visited reported that the Davis-Bacon wage requirement was one of the barriers to recruiting qualified subcontractors. Specifically, the local agencies reported that some subcontractors were unwilling to pay one wage—the Davis-Bacon wage—for Recovery Act projects and another wage—the subcontractor's standard wage—for non Recovery Act projects. Additionally, subcontractors reported being unwilling to comply with the rigorous reporting requirements associated with the Davis-Bacon wage requirements.

With respect to increasing the number of identified eligible dwellings, the Energy Office reports that there are more than enough eligible households statewide for local agencies to weatherize. However, to reach the 16,000-home target, the

Energy Office will need to maximize its outreach efforts to ensure it makes contact with eligible households and continues to build the number of applicants in each region statewide.

During the 17 months remaining before the expiration of the Recovery Act monies, the Energy Office should continue to regularly review its spending and monitor the rate at which the Recovery Act funds are used. If it appears that the Energy Office will not be able to spend the monies before they expire, the Energy Office should consider alternative strategies to increase its spending. For instance, the Energy Office could help local agencies recruit qualified subcontractors or instruct county-run agencies (which are not subject to Davis-Bacon wage requirements) to hire temporary employees to address the increased workload demands.

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#### **Recommendation No. 4:**

The Governor's Energy Office should continue to monitor the expenditure of Recovery Act funds for weatherizing homes. In the event that it does not appear that Recovery Act weatherization funding will be fully utilized, the Governor's Energy Office should work with the local agencies to identify means of hiring additional weatherization subcontractors, or explore other alternatives to increase capacity, including having county-run local agencies hire additional temporary employees to weatherize homes through the end of the Recovery Act funding period.

#### **Governor's Energy Office Response:**

Agree. Implementation date: Implemented and ongoing.

The Energy Office is continually monitoring the expenditure of Recovery Act funds to ensure that all funds are fully and completely utilized prior to the expiration of the Recovery Act funds on March 31, 2012. The Weatherization Program utilizes its "Focal Point" database system to continually monitor the production of each local agency on a weekly basis in addition to monitoring the fiscal expenditures of each local agency on a monthly basis. The Energy Office has assigned two program managers that are in communication with each local agency on a weekly basis to assist in monitoring to ensure that production targets and fiscal goals are being met, and if there are variances to these metrics, appropriate adjustments are implemented on a real-time basis. These weekly monitoring activities include assessing local agency staffing, including assessment of available subcontractor capacities in each regional area.

The Energy Office has currently weatherized 5,429 Recovery Act funded dwellings which represents over 51 percent of the total targeted Recovery Act dwellings. With 17 months of production remaining, the Energy Office is confident that the Recovery Act production and fiscal targets will be met.

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# Financial Accountability

## Chapter 3

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As mentioned previously, Colorado is scheduled to receive \$79.5 million in Recovery Act Weatherization Program grant funds from the U.S. Department of Energy to spend between June 2009 and March 2012. These funds increased total Weatherization Program expenditures from \$10.7 million in Fiscal Year 2006 to \$32.2 million in Fiscal Year 2010, or about 200 percent. As of June 30, 2010, the Energy Office had expended more than \$18.2 million in Recovery Act grant funds, or about 23 percent of the total Recovery Act funding that it expects to receive for the Weatherization Program. In addition to Recovery Act monies, the Energy Office spent its regular allocation of weatherization funds of about \$7.5 million in Fiscal Year 2010. The rapid influx of significant dollars distributed to multiple recipients over a relatively short period of time presents risks that Weatherization Program monies may not be spent appropriately and for approved purposes. As a result, strong internal controls over expenditures are crucial.

We evaluated the Energy Office's financial accountability and compliance with program rules and laws. We identified problems with the Energy Office's financial management of the Weatherization Program that increase the risk that public funds are not adequately protected; used in a fiscally responsible manner; or used in accordance with laws, rules and other requirements. Specifically, we found problems with the Energy Office's (1) cash management practices, (2) accuracy of reporting on the use of grant funds, (3) tracking of expenditures by local agencies, and (4) adherence to federal reporting requirements. In total, we identified \$905 in questioned costs and an undercharge of \$74 to the grant. Although the amount of questioned costs is not large, it indicates a need for the Energy Office to improve internal controls over weatherization funds.

### Cash Management

Proper cash management includes controls related to cash advances, as well as controls over the processes for collecting, recording, and safeguarding cash. During our review of the Weatherization Program we identified two areas where cash controls could be improved: (1) cash advances—the Energy Office typically gives cash advances to local agencies at the beginning of each fiscal year and (2) landlord contributions—the Energy Office collects money from landlords who do not qualify for the program but have work done on their properties because they have tenants that qualify. The problems we found are described below.

## Cash Advances

U.S. Department of Energy regulations [Section 10 CFR 600.122] allow state administrators of weatherization programs to advance weatherization grant funds in order to aid local agencies with startup costs. Cash advances may be used for a variety of purposes, including purchase of capital equipment and employee training. Regulation specifies that cash advances should be "...limited to amounts needed and be timed in accordance with the actual, immediate cash requirements of the recipient organization." In other words, advances should fulfill a specific purpose or need and be recouped as quickly as possible so that monies are not left at risk, should the local agency be unable to complete its contractual duties.

We tested cash advance practices at the Energy Office and found that the Energy Office is not limiting its advances to the amounts needed or timing the advances to coincide with the actual, immediate cash requirements of local agencies, as required by federal regulation. First, the Energy Office's practice is to provide each local agency with 20 percent of its total grant amount and 100 percent of its capital equipment budget at the beginning of each fiscal year. The Energy Office does not require that the local agencies request the advance or justify the amount of the advance. Three of the agencies we visited reported that they did not need the cash advances provided by the Energy Office; advances for these three agencies totaled about \$2.7 million. In total, the Energy Office advanced \$7.5 million, or 25 percent of total agency funding, to the 11 local agencies during Fiscal Year 2010 without agency requests for the advances.

Second, the Energy Office does not require local agencies to pay back the advances as soon as they are able but allows local agencies to retain the funds until the last three months of the contract period. In other words, the Energy Office does not apply the amount of the advance to the first reimbursement request, but rather applies the advance to the local agency's final three months of reimbursement requests, as needed, to recoup the advance. As a result of these practices, the Energy Office risks being unable to recoup the advanced monies if the Energy Office determines that the local agency has spent the funds for unallowable purposes or if the local agency goes out of business. The State is liable to the U.S. Department of Energy for any expenditures that are not allowable under the grant.

We identified one case where the Energy Office gave a local agency a \$618,000 cash advance even though the Energy Office had decided to terminate the local agency's contract due to the local agency's inadequate controls over grant funds. Although the Energy Office reports that it continued to monitor the local agency's contract on a weekly basis, providing significant funding in advance of expenditures presents a risk that the local agency could use funds for unallowable purposes. If this occurred, and had the local agency been unable to pay back the

funds prior to its contract termination, the State would have been liable to the U.S. Department of Energy for those monies. Fortunately, the local agency had not spent its advance for unallowable purposes.

The Energy Office reports that it gives advances to assist with any potential cash flow problems local agencies might experience while waiting for their reimbursements. Local agencies are generally small nonprofit organizations and local government consortiums that contract with the Energy Office to provide weatherization services. The Energy Office reports that these local agencies are often unable to obtain a line of credit to obtain the cash needed to purchase weatherization materials and equipment necessary to begin weatherizing homes or to pay for these materials up front while awaiting reimbursement from the State for their first month's expenditures. However, as mentioned earlier, three of the four local agencies we visited reported they did not need the advances.

Currently the Energy Office lacks written policies and procedures outlining a process for local agencies to request the advance amount and length of time the advance will be needed. The Energy Office should improve its practices by developing comprehensive cash-advance policies and procedures that minimize grant advances. These policies and procedures should require local agencies to apply for the specific amount of cash advance they need to conduct weatherization services and indicate the time frame within which they can pay back the advance. The policies and procedures should require that the Energy Office recoup cash advances from local agencies as early in the contract period as possible and require documentation from the local agencies for the capital equipment and other expenditures paid for with the advances immediately after the expenditures are made.

In addition, the Energy Office should investigate opportunities to reduce or eliminate the need for cash advances by improving the timeliness of its reimbursements to local agencies. Currently the Energy Office reimburses local agencies within 45 days of the reimbursement request. However, if the Energy Office were able to reimburse the local agencies more quickly, the Energy Office might be able to reduce the use of cash advances, mitigating the risk associated with making these advances. We spoke with four other state weatherization programs regarding their practices of advancing grant monies to their local agencies. Two states reported that they avoid giving advances by reimbursing local agencies in as little as two weeks of the reimbursement request. The other two reported giving advances on a month-to-month, rolling basis. In this way, these states are able to limit the amount provided and avoid putting grant monies at risk for more than 30 days.

### **Recommendation No. 5:**

The Governor's Energy Office should improve controls over advances of Weatherization grant monies to local agencies by improving its policies and procedures for making cash advances to local agencies and receiving timely reimbursements. These policies and procedures should include, but not be limited to:

- a. Requiring that local agencies apply for cash advances as needed and furnish supporting documentation.
- b. Recouping advance amounts on a month-to-month basis, including any unspent capital advances.

In addition, the Governor's Energy Office should work to expedite reimbursement requests promptly in order to minimize the need for cash advances.

### **Governor's Energy Office Response:**

- a. Agree. Implementation date: July 2011.

The Energy Office will improve Weatherization Program Policy 105 by requiring local agencies to apply for cash advances on an as needed basis. The application for a cash advance shall also require the local agency to provide evidence supporting the need for the requested cash advance.

- b. Agree. Implementation date: July 2011.

The Energy Office will implement a process to recoup all cash advances provided to the local agency on a month-to-month basis, including any unspent capital equipment advances. The Energy Office has currently requested that each agency having received a cash advance for the 2010-2011 program year to provide a reimbursement schedule for repayment of the current advances. The Energy Office will also continue to seek to improve its reimbursement process in order to expedite expense reimbursements that could reduce the need for amounts of future cash advance requests by a local agency.

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## Landlord Contributions

As part of evaluating homes for weatherization services, the local agencies review the energy efficiency of refrigerators and furnaces in the dwellings on which they work; in some instances the refrigerator or furnace may qualify for replacement. By installing new refrigerators and furnaces in dwellings, the Weatherization Program increases the value of the dwelling. Because the landlord benefits from the weatherization services, Energy Office rules require landlords who are not eligible for the program to contribute 50 percent of the cost of the refrigerator or furnace. Although at this time the Energy Office has had a large influx of Recovery Act monies, typically this offset of program funds allows the local agencies to provide weatherization services to more households with the limited monies that are usually available. In Fiscal Year 2010 the Energy Office reported that local agencies collected about \$73,000 in landlord contributions; the Energy Office did not have data on how many landlords were required to pay these contributions.

Local agencies are responsible for determining the contribution owed by the landlord, collecting and depositing any monies contributed, and reporting on those monies to the Energy Office on a monthly basis. Under Energy Office rules, landlords who are not eligible for the program (i.e., do not have income below 200 percent of the federal poverty level; have not received Aid to the Needy Disabled, Medicaid, Social Security Income, or TANF in the last 12 months; or are not eligible for LEAP) must contribute at least half of the price of any heating system or refrigerator installed in the dwelling. According to Energy Office rules, landlord eligibility for the Weatherization Program must be documented in the local agency's file. If the landlord contribution is not eligible for the Program, the contribution requirement can be waived if the landlord requests a waiver of the fee from the local agency and the Energy Office. The Energy Office's policy provides that waivers of the contribution may be approved in cases where there would be undue financial burden to the landlord. For example, if the landlord is unemployed at the time services are being provided to the tenants of his or her property, the Energy Office may grant a waiver. Local agencies do not replace the appliances if the landlord chooses not to contribute and the landlord does not qualify for a waiver from the Energy Office.

We reviewed the Energy Office's oversight of the collection of and reporting on landlord contributions. Additionally, we reviewed the Energy Office policies and procedures for determining, collecting, and recording the contributions. At the four local agencies we visited, we tested files for 27 dwellings where the dwelling was renter-occupied and therefore should have been evaluated for a landlord contribution. We found that the Energy Office does not have adequate controls in place to ensure that landlord fees are properly collected and reported, or waived if appropriate. We identified \$2,700 in landlord contributions that local agencies

did not collect and could not provide adequate justification for why the contribution was not paid. We describe these problems below.

- **No documentation that the landlord contribution was evaluated.** Of the 27 files, three (11 percent) contained no documentation indicating that the local agency evaluated whether the landlord should contribute to the project. Potential contributions in total for these three instances totaled about \$1,900.
- **No documented approval of the fee waiver.** Two of the 27 files, or 7 percent, had a letter in the file from the landlord requesting that the contribution be waived, but had no documentation from the Energy Office approving the waiver of the contribution and no documentation from the local agency that the waiver request had been approved. The local agencies should have collected about \$800 if the waivers were not approved. When an approved waiver is not in place, there is a risk that the landlord contribution was collected but misappropriated or that the contribution was waived without proper authorization.
- **No segregation of duties over collection.** One of the local agencies we visited reported that the same person determines the amount owed by a landlord, collects the landlord contribution, and then brings the monies back to the office for recording and deposit. When the duties related to cash collections are not segregated among different employees, there are heightened risks that funds could be misappropriated.

The primary reason for the problems we identified is that the Energy Office has not developed and implemented adequate policies and procedures to ensure that landlord contributions are identified, collected, documented, and waived if appropriate. To address these issues, the Energy Office needs to improve its policies and procedures and establish a method by which to document all aspects of the contribution process, including waivers of landlord contributions. The policies and procedures should also require that local agencies maintain segregation of duties over the collection of the monies. Additionally, the Energy Office should review local agencies' implementation of these policies during monitoring visits.

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## **Recommendation No. 6:**

The Governor's Energy Office should improve cash controls over landlord contributions for the Weatherization Program to ensure that local agencies identify, collect, and record all appropriate landlord contributions and document

approvals and denials of waivers. Specifically the Governor's Energy Office should strengthen its policies and procedures to:

- a. Outline how local agencies should evaluate landlords' eligibility for contributions and determine the amount of landlord contribution due. Any waivers of landlord contributions should be documented in the file, including the related approval or denial from the Energy Office and from the local agency.
- b. Require segregation of duties over the determination of the landlord contribution and the collection of the payment at the local agency level.

The Governor's Office should review the local agencies' implementation of these policies and procedures during monitoring visits.

### **Governor's Energy Office Response:**

- a. Agree. Implementation date: July 2011.

The Energy Office will strengthen Weatherization Program Policy 306.2 in order to provide further guidance on how local agencies evaluate landlords' eligibility for weatherization services and determine the amount of an expected landlord contribution. All requested waivers of landlord contributions, including the notice of approval or denial, will be documented in the client file at the local agency.

- b. Agree. Implementation date: July 2011.

The Energy Office will strengthen its policies and procedures to require segregation of duties over the determination of all landlord contributions and the collection of the landlord payments at the local agency. The Energy Office will also review compliance with this policy in its administrative monitoring process.

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## **Quarterly Financial Status Reports**

Most federal grants require that the grantee submit regular reports so that the federal awarding agency can monitor the use of the federal funds and ensure that funds are being spent as intended. These reports also assist the awarding agency with planning for future allocations. Under federal regulations and program rules, the Energy Office is required quarterly to submit two standard, cumulative

Financial Status Reports (reports) for the Weatherization Program: one related to monies spent under the original federal Weatherization Program grant and one related to monies spent under the Recovery Act grant provided specifically for the Weatherization Program. The reports were introduced during Fiscal Year 2010 to replace prior cash management and financial status reports. Because the U.S. Department of Energy uses these reports to manage the program, inaccurate reports can adversely affect program management decisions.

The Energy Office based reporting for expenditures incurred at the state level on data within the Colorado Financial Reporting System (COFRS), the State's accounting system, and at the local agency level on data within the Weatherization Program database. The Weatherization Program database was created by the Energy Office to capture and reimburse expenditures incurred by the local agencies.

We tested four reports submitted during Fiscal Year 2010, two of each type, to determine if the Energy Office has adequate controls in place to ensure that reports are accurate, complete, and submitted on time. We found that the Energy Office's controls over the preparation of reports are not adequate. All four reports we tested contained errors; specifically, the "bottom-line" amounts for cash on hand and unobligated balance of federal funds were reported incorrectly on each report. The following section provides some detail on the problems we found:

- **Inadequate reconciliations.** The Energy Office did not reconcile expenditures reported in COFRS with those reported in the Weatherization database prior to completing all quarterly reports. Staff only performed these reconciliations at fiscal year end. Annual reconciliations do not provide assurance that the cumulative expenditures reported in the first three quarterly reports are accurate, complete, and consistent with COFRS.
- **Use of outdated federal guidance.** The Energy Office did not monitor guidance from the federal Office of Management and Budget (OMB) and update procedures to ensure compliance with OMB instructions for the Financial Status Reports. As a result, all four reports improperly excluded the amount of advances paid to local agencies and grant funds committed for expenditures. Two reports incorrectly reported non-Weatherization Program cash disbursements, budgeted expenditures, and actual expenditures. OMB instructions contain detailed information on how to complete the Financial Status Reports.
- **Use of incorrect dates.** The Energy Office used the wrong cutoff date when preparing two reports. Staff used COFRS expenditure information through the date of the report preparation rather than only through the end of the reporting period. These errors resulted in overreported expenditures of approximately \$6,500.

- **Missing documentation.** The Energy Office did not have documentation to support some amounts included on the reports. For one report, the Energy Office could not substantiate nearly \$3.9 million reported as federal funds committed for expenditures, and for a different report nearly \$2.9 million reported as the recipient share of expenditures could not be substantiated.
- **Underreported expenditures.** The Energy Office underreported the recipient share of expenditures by more than \$232,000 on one report and underreported the federal share of expenditures by almost \$23,000 on another report. These errors were due to clerical errors and omissions in the calculation of expenditures.
- **Incorrect cash advances.** The Energy Office recorded cash advances it gave to local agencies as expenditures instead of as receivables. This also resulted in an error in the State's accounting system. Specifically, expenditures were overstated and receivables were understated.
- **Inappropriate authorization of reports.** The Energy Office submitted the reports using the electronic signature for the Energy Office Director, but the Director had not approved or submitted the reports. Rather, another staff member used the Director's electronic signature to approve and submit the reports.

For those instances where we identified dollar reporting errors, the Energy Office should correct the errors on the next quarterly report submitted to the federal government.

We identified four causes for the reporting errors. First, the Energy Office did not perform quarterly reconciliations between COFRS and the Weatherization Program database, did not monitor and update written procedures for report preparation to ensure that reports are prepared according to OMB instructions, and did not maintain documentation to support all amounts included on the reports. Second, there was insufficient supervisory review of report preparation; the review did not identify and correct the errors found in the audit. Third, we found that the Energy Office staff person preparing the reports has limited expertise in accounting and reporting for federal grants and has not received adequate training. Finally, the Energy Office did not exercise due care with respect to certifying the reports for submission.

As a result of these control weaknesses, information that the Energy Office reported to the federal government was inaccurate and incomplete, and grant managers at the Energy Office and the U.S. Department of Energy were not provided with reliable information about critical balances such as cash on hand and unobligated balance of federal funds. These amounts are crucial for

management of the Weatherization Program and Recovery Act grants because they indicate the overall cash position of the grants and available funds. Additionally, the Energy Office misrepresented that an authorized official approved and submitted the reports.

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### **Recommendation No. 7:**

The Governor's Energy Office should improve controls over the preparation and submission of Weatherization Program Financial Status Reports by:

- a. Performing reconciliations between COFRS and the Weatherization Program database at least quarterly to detect and correct errors before completing quarterly reporting to the federal government.
- b. Reviewing all federal guidance and updating reporting procedures to ensure that reports are completed according to current federal instructions, and monitoring future guidance to ensure procedures reflect any changes for report preparation in the future.
- c. Correcting all errors identified during the audit on reports submitted for the next quarterly reporting period.
- d. Maintaining documentation to support all amounts included in the reports.
- e. Properly recording cash advances as receivables.
- f. Ensuring that an authorized official approves and submits all reports.
- g. Strengthening supervisory review over reports to ensure all errors are identified and corrected prior to report submission.
- h. Training staff on grant accounting and reporting and on COFRS.

### **Governor's Energy Office Response:**

- a. Agree. Implementation date: April 2011.

The Energy Office will compare the Weatherization database to COFRS on a quarterly basis to reconcile financial information and report accurate cumulative expenditures to the U.S. Department of Energy. The Energy Office will provide written documentation of the process for reconciliation.

- b. Agree. Implementation date: January 2011.

The Energy Office will review federal guidance for changes and update reporting procedures in accordance with new guidance. The Energy Office will ensure that reports are completed according to current, and any future, federal instructions. The Energy Office will identify one staff member responsible for visiting the OMB and the Department of Energy websites for any new guidance. As necessary the Energy Office will also update any written procedures.

- c. Agree. Implementation date: March 2011.

The Energy Office will correct the errors identified during the audit on reports submitted. Revisions and submission will be complete for the March 2011 quarterly report.

- d. Agree. Implementation date: November 2010.

Monthly and quarterly reports will be filed separately with appropriate, accurate supporting documentation.

- e. Agree. Implementation date: November 2010.

The Energy Office will initiate a journal entry to transfer/correct any remaining recorded advances as receivables.

- f. Agree. Implementation date: December 2010.

The Energy Office Director will provide written authorization giving permission to the agency controller to review, approve, and submit all reports.

- g. Agree. Implementation date: January 2011.

Considering the short turnaround from the time the State closes its quarterly books, to the time the quarterly reports are due to the U.S. Department of Energy (which at times can be as little as 7 to 10 days to compile, review, and submit the reports) the Energy Office will strive to review and correct any errors prior to submission to the U.S. Department of Energy.

- h. Agree. Implementation date: Immediately.

The Energy Office provides grant accounting, reporting, and COFRS training at start of employment. Additional training will be provided

as needed. The Energy Office will seek out and attend trainings from the U.S. Department of Energy and any other workshops and grant guidance available.

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## Expenditures

Effective stewardship of federal weatherization dollars and oversight of local agency awards is based largely on the State's ability to ensure accountability for all dollars disbursed. Most federal grants limit the percentage of overall expenditures that can be spent on administration so that the majority of grant funds is used for programmatic activities. Additionally, federal regulations require all grantees and local agencies to use federal funds only for the purposes allowed under the program and to retain adequate documentation of expenditures and report expenditures quarterly.

The Energy Office tracks local agency expenditures using its own internal database, which local agencies access online. Local agencies enter information into the database by project, including how much was spent on materials, estimates for the cost of labor for installing the weatherization measures, and the start and end dates of the services for the project. Each month the local agencies are required to submit to the Energy Office a reimbursement request detailing their expenditures for the month. The local agencies use a combination of the project information they report in the Energy Office's internal database and their own internal financial information to populate the expenditures on their reimbursement requests.

We reviewed Weatherization Program grant expenditures, including administrative costs, labor costs, and materials costs, to determine whether the grant expenditures were allowable, appropriate, supported by documentation, and whether the Energy Office recorded those expenditures accurately. While we did not find any instances where expenditures were not appropriate under the terms of the grant, we did find the need for improvements in cost allocation practices and documentation to support expenditures. We did not find problems with expenditures charged for labor. Problems we identified are discussed below. In total, these problems result in about \$905 in questioned costs and \$74 in costs that were undercharged to the grant.

## Administrative Costs

Federal regulations dictate that not more than 10 percent of the weatherization grant can be used for administrative purposes and only half of that amount, or 5 percent, can be used by the Energy Office for such purposes. According to the Energy Office, administrative costs include costs related to overseeing and administering the program, such as expenditures for phone, mail, and payroll administration. Administrative costs do not include costs for providing weatherization services. U.S. Department of Energy guidance further states, “[The U.S. Department of Energy] expects to see consistency in the implementation of program costs, particularly in how the Grantee defines these costs and how they will be charged to either administration or to program operations.” However, the U.S. Department of Energy regulations do not establish which specific costs are for administration and which are for program operations.

We reviewed the Energy Office’s policies and procedures regarding administrative costs and the grant expenditures for Fiscal Year 2010 and found that the Energy Office has not defined the costs that should be charged to administration and program operations. As a result, the Energy Office cannot ensure that the local agencies charge those costs to the grant consistently in accordance with federal guidance.

We reviewed the expenditures for Fiscal Year 2010 and found that at year end, the costs charged to administration for the original weatherization grant were about \$988,400, or 7 percent of total expenditures and the costs charged to administration for the Recovery Act grant were \$1.6 million, or 9 percent of total Recovery Act expenditures. Energy Office staff reported that they had directed local agencies to reallocate some administrative costs to program operations to correct misallocations the Energy Office had identified and to ensure that the program did not exceed the 10 percent limit.

According to the Energy Office, it has routinely instructed local agencies to reallocate administrative expenses to program operations at the end of each year in order to ensure that any allocation errors made during the year are rectified and that the program does not exceed the 10 percent limit on administrative costs. Energy Office staff report the local agencies often charge expenses to administration that should be charged to program operations. As noted previously, the Energy Office does not have a policy that defines what costs should be charged to administration and what costs should be charged to program operations, as required by federal guidance. Instead, it leaves those determinations to local agencies, which report that they classify their costs in accordance with their approved budget or in the category they believe fits best. As a result, there is a risk that local agencies are charging expenses to administration and to program operations inconsistently and that the program is not maximizing its investment in program services.

The Energy Office needs to clearly define the costs that should be allocated to administration and program operations in guidance as required by the U.S. Department of Energy and ensure that costs are charged to the appropriate area when they are first incurred in order to minimize reallocations among cost areas. This guidance should then be communicated to the local agencies. Additionally, the Energy Office needs to provide specific examples in its guidance of the types of costs that should be recorded in each category. Further, during its monitoring visits the Energy Office should review a sample of local agencies' cost allocations and any reallocations of administrative costs. The review should ensure costs have been recorded properly and identify areas where additional clarification to guidance is needed.

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### **Recommendation No. 8:**

The Governor's Energy Office should promulgate guidance for the Weatherization Program that clearly defines the costs that should be allocated to administration and the costs that should be allocated to program operations to ensure that these costs are recorded consistently and that costs charged to administration do not exceed the 10 percent limit. Additionally, the Energy Office should:

- a. Include specific examples of each type of cost in its guidance and provide the guidance to the local agencies.
- b. Review a sample of costs charged to administration for adherence to the guidelines and consistency among the local agencies during monitoring visits.

### **Governor's Energy Office Response:**

- a. Agree. Implementation date: July 2011.

The Energy Office will add agency guidance, including specific examples, of each type of cost that is allowable as administrative and operational.

- b. Agree. Implementation date: July 2011.

As part of its current administrative monitoring process, the Energy Office is reviewing a minimum of three invoices at each subgrantee monitoring visit to ensure that costs being charged to administrative activities are accurate. Upon development of the additional guidance

as specified in part a. above, the Energy Office will incorporate that guidance into its administrative monitoring practice.

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## Materials Costs

Federal regulations provide requirements that the State and local agencies must follow when spending grant funds. Specifically, requests for reimbursement of grant expenditures incurred by the grantee must be supported by documentation (such as an invoice, employee timesheet, or receipt), and reimbursements may be requested only for expenditures related to allowable activities, such as materials, labor, training, and oversight related to weatherizing homes. We reviewed materials costs totaling \$57,000 for 57 dwellings weatherized by four local agencies to determine if expenditures were in accordance with the Office of Management and Budget (OMB) Circular A-133 and program guidelines. OMB Circular A-133 defines questioned costs as those that are: (1) unallowable under statutory, regulatory, contractual, or grant requirements; (2) appear unreasonable and do not reflect the actions a prudent person would take under the circumstances; or (3) are not supported by adequate documentation at the time of the audit. While we did not find any expenditures that were unallowable or unreasonable, we did find that, overall, materials costs are not supported by adequate documentation. These expenditures totaled \$905 in questioned costs and \$74 in costs undercharged to the grant. Specifically, we found two problems:

- **Local agencies requested reimbursement for materials not documented.** For seven of the dwellings (12 percent), we found that local agencies charged about \$780 in materials for expenditures not supported by documentation in the file.
- **Local agencies charged an incorrect amount for materials.** For six dwellings (11 percent), we found that one local agency had charged the incorrect amount for materials. For these six dwellings, local agencies overcharged for materials by \$125, and undercharged for materials by \$74.

The Energy Office should ensure local agencies charge all expenditures to the grant accurately and have adequate supporting documentation in accordance with federal requirements. Specifically, the Energy Office should require supervisory review of reimbursement requests and supporting file documentation at local agencies. Additionally, the Energy Office should review expenditures, supporting documentation, and supervisory signoffs during monitoring visits.

### **Recommendation No. 9:**

The Governor's Energy Office should improve controls over materials expenditures for the Weatherization Program to ensure reimbursement requests are accurate and adequately supported with documentation by:

- a. Informing the local agencies of requirements to charge costs correctly and maintain adequate supporting documentation.
- b. Instituting a policy requiring local agency supervisory review and signoff on reimbursement requests and supporting documentation to ensure that costs are charged correctly.
- c. Reviewing a sample of expenditures, supporting documentation, and supervisory signoffs for compliance with requirements during monitoring visits at local agencies.

### **Governor's Energy Office Response:**

- a. Agree. Implementation date: July 2011.

The Energy Office will provide local agencies with further guidance related to the requirements for accurately charging material cost expenditures and maintaining supporting documentation.

- b. Agree. Implementation date: July 2011.

The Energy Office will revise Weatherization Program Policy 201 to require that each local agency have a documented procedure for a supervisory signoff.

- c. Agree. Implementation date: December 2010.

The Energy Office will review a sample of expenditures, supporting documentation, and supervisory signoffs for compliance with all requirements as part of its administrative monitoring process.

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## CFDA Numbers

Federal regulations contain a number of requirements that grantees, such as the Energy Office, must follow when they pass federal funds through to other entities. One of these requirements is that grantees make these entities aware of the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name, and the name of federal agency and applicable compliance requirements at the time of the award. This is done to provide reasonable assurance that federal award information and compliance requirements are identified to these other entities, such as the local agencies, so that the local agencies are aware of the requirements they must follow in using the federal funds and can accurately report on their use of the funds.

We reviewed five local agency contracts to determine if the Energy Office complied with this requirement. We found that the Energy Office only informed local agencies of the name of the federal awarding agency but did not provide other required information at the time of the award, including CFDA number, program title, and applicable compliance requirements. The Energy Office reports that it did not give the required information to the local agencies because it was not aware of the requirement.

If local agencies are not aware of all necessary requirements and regulations associated with their acceptance of the weatherization monies, they may use the funds in a manner inconsistent with applicable federal rules and regulations. Therefore, the Energy Office should comply with federal requirements and add the CFDA number, program title, and applicable compliance requirements to the local agency contracts.

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### **Recommendation No. 10:**

The Governor's Energy Office should comply with federal regulation by adding the CFDA number, program title, and applicable compliance requirements into all Weatherization Program contracts with local agencies.

### **Governor's Energy Office Response:**

Agree. Implementation date: July 2011.

The Energy Office will add to its contracts with subgrantee agencies, the Catalog of Federal Domestic Assistance (CFDA) title, number, and applicable compliance requirements, in order to be in compliance with federal regulations. The Energy Office will immediately begin adding

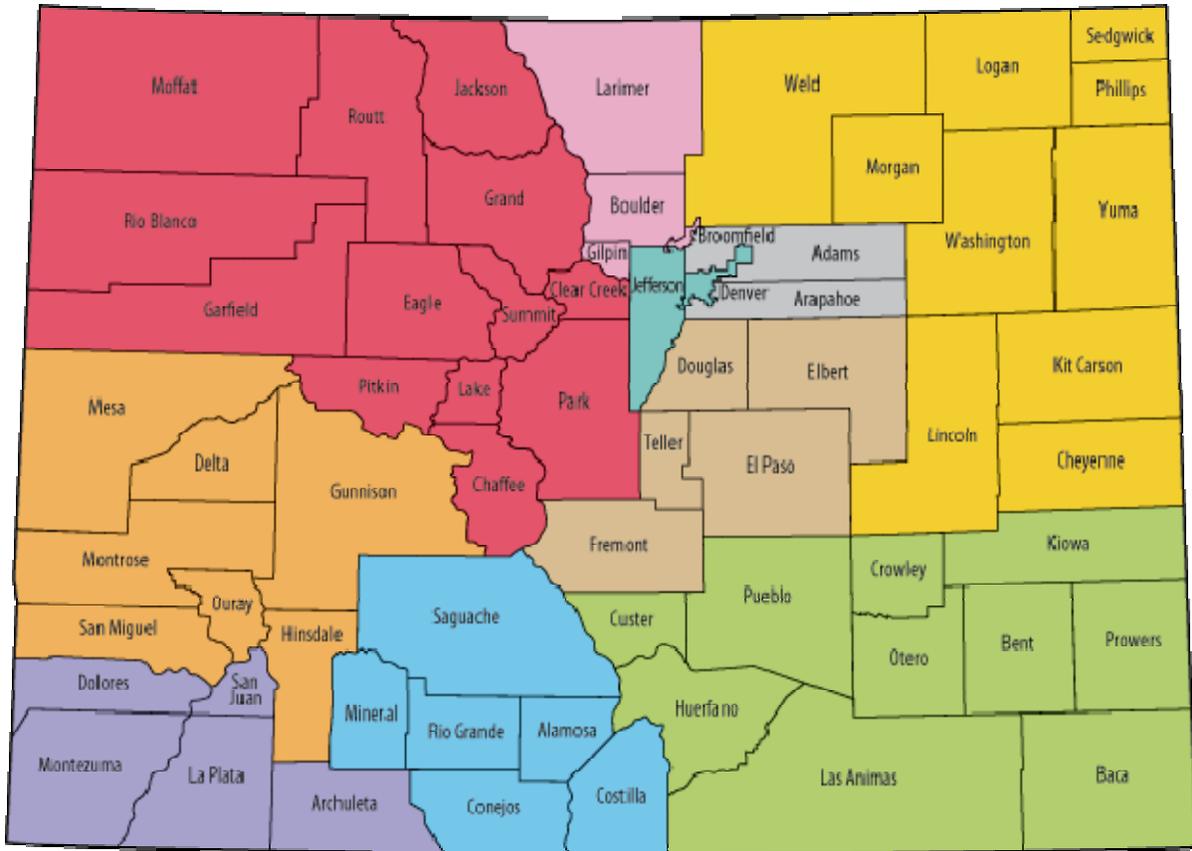
these items to any contracts that are amended during the current program year. All contracts for the next program year, beginning on July 1, 2011 shall contain CFDA titles, numbers, and applicable compliance requirements.

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# Appendix

## Appendix A

### Weatherization Program Regions As of Fiscal Year 2010



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|---|--|
| <span style="color: red;">■</span> Northwest Colorado Council of Government               | <span style="color: tan;">■</span> Energy Resource Center  |
| <span style="color: orange;">■</span> Housing Resources of Western Colorado               | <span style="color: grey;">■</span> Arapahoe County Weatherization Division                      |
| <span style="color: purple;">■</span> Four Corners Office for Resource Efficiency (4CORE) | <span style="color: lightgreen;">■</span> Pueblo County Department of Housing and Human Services |
| <span style="color: lightblue;">■</span> Veterans Green Jobs (VGJ): (San Luis Valley)     | <span style="color: yellow;">■</span> Northeastern Colorado Association of Local Governments     |
| <span style="color: teal;">■</span> Veterans Green Jobs (VGJ): (Denver)                   | <span style="color: pink;">■</span> Longs Peak Energy Conservation                               |

**Note:** The eleventh contractor, Energy Outreach Colorado, provides weatherization services statewide for multi-family dwellings.

**Source:** Governor’s Energy Office

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