

December 14, 2004

**Internal Audit Report 2004-14
Minor Rehabilitation Program
Community Development Division
Economic and Community Development**

Introduction. The Community Development Division (CDD) funded the Health and Human Services' (HHS) Weatherization Section to operate the Emergency Repair Program and the Disabled Access Program for the period March 26, 2003, through March 31, 2004, with \$800,000 of Community Development Block Grant (CDBG) funds. In January 2004, the Minor Rehabilitation Program (Program) replaced the Emergency Repair Program, the Disabled Access Program, the Mobile Home Dislocation Assistance Program, and the Lead Based Paint Remediation Program. Funds for this new Program were designated for items such as roof replacement, heating system replacement, repair of non-functional plumbing, electrical shock hazards, electrical fire safety hazards, and repair or replacement of rotting floors for qualified home owners with a limit of \$15,000 per residence. Currently, the Program has two positions, but only one is filled. At the time of our audit, a total of 15 clients had been served since March 26, 2003.

Objective and Scope. The objective of this audit was to determine if the Weatherization Section complied with the Program's intent and goals. Our audit included an inventory count of tools and materials. In addition, we reviewed four client files, selected judgmentally from 2003 and 2004. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of May through August 2004.

Overall Evaluation. The Program has not been efficiently administered. As a result, applicants may not be receiving Program services. Specifically, we found that the CDD had not finalized and

implemented a Memorandum of Understanding (MOU) providing a general description of the responsibilities to be assumed by the Weatherization Section for administering the Program. In addition, written Program policies and procedures had not been finalized. Finally, the inventory process used to track materials had significant control and accountability problems and tool inventory records were not accurate.

FINDINGS AND RECOMMENDATIONS

1. Program Not Efficiently Administered.

- a. **Finding.** The Program has not been efficiently administered. According to Weatherization Section data, only \$143,581 has been spent on projects for 15 clients since the inception of the Program. However, over \$100,000 was spent to purchase tools and three vehicles for a one-man crew assigned to the Program. CDD has proposed increasing Program funding from \$800,000 to \$1,040,206. However, we found that only a small percentage of the \$800,000 was actually spent on clients.
- b. **Recommendation.** The CDD should administer the Program more effectively to ensure delivery of Program services to as many eligible clients as possible.
- c. **Management Comments.** Community Development Division management stated, “(CDD) concurs with the conclusion that the program is not efficiently administered.

“The Municipality of Anchorage began administering the Minor Repair program internally through the Department of Health and Human Services’ Weatherization Section (Weatherization) in late 2003, with 2004 being its first full year of operation. As part of an evaluation of the Minor Repair Program, both by the Weatherization Section and by private subrecipients, CDD will perform its own monitoring of the Weatherization Section, currently scheduled for November, 2004. CDD, in

cooperation with Weatherization, will focus attention on how clients may be processed faster and more quickly receive housing repair services. The monitoring will also establish regular performance measures and reporting for the Minor Repair Program.

“In addition to overall program expenditures including salaries, the Audit finding identifies expenditures for vehicles and tools as a particular concern with regards to efficiency. Gearing up to administer the program in 2003 involved the purchase of vehicles and materials in order to operate. These up-front capital purchases were in line with the anticipated activity of the program and will continue to serve the program into the future. Nevertheless, as part of CDD’s own examination of the Weatherization program, it will look into the use of the three vehicles purchased and evaluate if there is a more appropriate CDBG-eligible use for one or more of these vehicles.

“CDD expects to work with Weatherization to re-design the Minor Repair Program for more efficient management by the end of the 2004 calendar year. If changes cannot be agreed upon or implemented, CDD will consider once again outsourcing this program during 2005. To enable this flexibility, the *Housing and Community Development 2005 Annual Action Plan* (which is scheduled for Assembly Action on November 9) does not dedicate additional funds specifically to Weatherization’s administration of the Minor Repair Program.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. MOU Not Finalized and Implemented.

- a. Finding.** The CDD had not finalized and implemented an MOU, or any other agreement, with the HHS, Social Services Division, Weatherization Section, for the new Minor Rehabilitation Program. The previous MOU, for the Emergency Repair and Disabled Access Programs, expired on March 31, 2004. Although this MOU has expired, the CDD proposed to amend it to formally recognize the new Program and increase funding from \$800,000 to \$1,040,206. However, the proposed amendment did not modify the March 31, 2004, expiration date of the original MOU.

The MOU was prepared by the CDD and provided a general description of the responsibilities to be assumed by the Weatherization Section. Although we found nothing requiring an MOU, the CDD agreed an MOU was important and misunderstandings could occur without some type of agreement with the Weatherization Section.

- b. Recommendation.** The CDD Manager should ensure that an MOU for the Program is finalized and implemented as soon as possible.
- c. Management Comments.** Community Development Division management stated, “CDD concurs that an MOU has not been finalized and that a current MOU is important to help prevent misunderstandings.

“CDD had drafted an MOU in early 2004 and provided it to Weatherization for review. Weatherization did not finalize its recommendations and the MOU was not signed. Because the process began well before the existing MOU expired, the draft did not extend the time frame. CDD has redrafted an MOU with a time extension and expects it to be signed by both parties before November 15, 2004.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Written Program Policies and Procedures Not Finalized.**

- a. **Finding.** The CDD and the Weatherization Section had not finalized policies and procedures for the Program. One Weatherization staff person stated that instructions were just verbal. We asked the CDD why written policies and procedures had not been developed. They could only tell us that they were being worked on. Many of the problems noted in this report could have been prevented if written policies and procedures had been developed and followed. For example, there were no policies and procedures regarding purchasing and inventorying materials nor for processing client applications.

In addition, we found that the client application was confusing. For example, section I of the application explains that Program assistance is in the form of a grant, implying that no repayment is necessary. However, section II of the application is called “Borrower Income Eligibility”, implying repayment of the provided assistance. In addition, the client application is titled “Minor Repair Program.” However, according to the CDD’s annual action plan, the client application should be titled “Minor Rehabilitation Program.”

- b. **Recommendation.** The CDD and the Weatherization Section should finalize written policies and procedures to ensure the Program operates effectively. In addition, the client application for the new Program should be evaluated and revised if necessary.
- c. **Management Comments.** Community Development Division management stated, “CDD concurs that written policies and procedures have not been finalized. One of the advantages of working with Weatherization is their long-standing history of

working with the Department of Energy's Weatherization program. Therefore, they have an application and income verification process in place. The MOU and the application and policies provided to the client outline many of the Minor Repair Program's unique features, not just for the client, but for Weatherization staff as well. CDD acknowledges, however, that written procedures for the Minor Repair program are necessary. As an extension of the monitoring review that will be undertaken in November, CDD will work with Weatherization to finalize written policies and procedures by the end of the first quarter of 2005."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Materials Inventory System Lacks Sufficient Controls.**

- a. **Finding.** The inventory process used to track materials had significant control and accountability problems. Our review revealed that a material inventory listing for the Program did not exist and, therefore, the inventory was nearly unauditible. As a result, items may be lost without detection and staff may be purchasing materials that are already in stock.

On June 22, 2004, we conducted a surprise inventory count of all materials stored at the warehouse, as well as materials found on the vehicles. We found that materials were not entered into an inventory database. Therefore, materials were not tracked and no inventory listing could be provided for comparison purposes. We also noted that materials not used on a client's home were supposedly returned to the warehouse, however, they were never added to the inventory. Part of the reason no inventory records exist is because no internal policies and procedures had been developed for the operation of the Program.

b. Recommendations. The Weatherization Program Manager should:

- 1) Take a complete inventory of all materials.
- 2) Develop inventory records for the Program.
- 3) Reevaluate and enforce procedures to track the purchase and use of materials.
- 4) Train all supervisory personnel and staff responsible for tracking the material inventory on proper inventory control and accountability procedures.

c. Management Comments. Health and Human Services management stated,

“Management concurs with findings.

- Department of Health and Human Services (DHHS) and Community Development Division (CDD) met to discuss this issue. CDD and DHHS Management agreed that an Excel spreadsheet would be created to track surplus materials per completed jobs and track the surplus materials to ensure that they are used on other clients that receive Minor Rehabilitation services.
- Procedures and training will be provided to staff working in the Minor Rehabilitation Program. This system is currently being constructed and will be operational by December 2004.
- A complete inventory is underway of all materials in the warehouse related to the Minor Rehabilitation Program and will be complete by December 1, 2004.
- In response to the inventory issues raised by Internal Audit, the part-time position of Warehouse Clerk was modified to full-time. This increased coverage will assist with keeping the inventories accurate.
- Technical assistance with the warehouse and inventory is being offered by ML&P’s Jess Ibara. ML&P has large warehouses and inventories that must be maintained at all times.

- Supervisory staff will be trained on proper inventory and accountability procedures.
- Management will conduct random physical audits of the materials each month, comparing the actual number with those indicated in the material inventory.
- Materials use will be tracked throughout the program year using the ongoing inventory documentation process. This information can then be used (along with the number of homes to have minor rehabilitation work and the availability of funding) to estimate the amount of materials to use in the coming program year and whether the types and quantities of materials to purchase are in line with past and projected use.
- Management has implemented a new policy that Weatherization will no longer stock materials that cannot be used within a year's period.
- Inventory records will be reviewed by the Warehouse Clerk and Management and discrepancies will be researched and documented at the end of each month. Any problem findings will be corrected and appropriate staff training or action will be taken as needed.
- Management will ensure that damaged and/or unusable materials are logged using a spreadsheet that indicates the original client name and number, vendor, purchase date, invoice number and description of the material(s) that have been damaged and /or unusable. When any of these materials are re-issued to another client the new clients name and client number will be recorded along with the date they were used. Weatherization and CDD will sign-off on damaged and/or unusable materials.
- This spreadsheet will be used each month as part of the monthly inventory to ensure damaged and/or unusable materials are accounted for.”

d. Evaluation of Management Comments. Management comments were responsive to the audit finding and recommendation.

5. Inaccurate Tool Inventory Records.

- a. Finding.** The tool inventory records for the Program were not accurate. Our inventory count of all tools stored on vehicles and in the warehouse revealed that some tools on the records could not be located and some tools and vehicles were not on the tool inventory records. As a result, tools could be lost without detection and staff may have purchased tools that were already in stock. The table below identifies some of the discrepancies we identified during our tool inventory.

Summary of Minor Rehabilitation Tool Variances

	Minor Rehabilitation's Tool Inventory List	Internal Audit's Tool Inventory Count	Overage/ (Shortage)
Saws	2	1	(1)
Drills	3	2	(1)
Nail Guns	8	6	(2)
Ladders	4	3	(1)
Vehicles	0	3	3

- b. Recommendations.** The Weatherization Program Manager should:
- 1) Provide for a separate tool and equipment storage area for Program tools.
 - 2) Take a complete inventory of all tools and equipment.
 - 3) Reconcile the results of the tool and equipment inventory to the inventory records.
 - 4) Research or investigate all variances from the reconciliation.
 - 5) Correct inventory records to reflect the current on-hand balances.
 - 6) Update inventory records to include information required by the grant such as model and serial number, if applicable, of all tools and equipment.

- 7) Repair or dispose of broken tools according to Municipal Policies and Procedures if they are not repairable.
- 8) Implement procedures to properly document the disposition of all tools and equipment.
- 9) Train all supervisory personnel on proper inventory control and accountability procedures.
- 10) Perform a study to establish what tools are required to accomplish the Program's mission.

c. **Management Comments.** Health and Human Services management stated,

“Management concurs with findings.

- DHHS Accountant Brian O’Fallon and Weatherization Supply Clerk Rick Martinez inventoried the tools on October 5, 2004. Program Manager, Supply Clerk and Mr. O’Fallon subsequently reinventoried tools on 11/30/2004. All tools indicated in the findings as shortages have been accounted for and two nail guns were improperly coded on the Weatherization internal inventory. These two nail guns have been placed correctly into the Weatherization Tool Inventory and have been reconciled with the Municipality’s inventory tag number system.
- Reorganization will continue as Weatherization moves towards a separate tool and equipment area as current space and funding allows.
- DHHS Weatherization is implementing a system that will involve CDD in the approval of all tool and equipment disposal. Repair or disposal of tools will be done and documented according to Municipal and grant policies and procedures.
- The three trucks have been added to the inventory records.

- Tool inventory records now include the information (such as model and serial number) required by the grant.
- Inventory control and accountability procedures training will be provided to all supervisory and appropriate staff.
- Tools are purchased according to the need of the program. The number of tools needed will be assessed on an annual basis. Tools will be purchased based upon the needs assessment and the availability of funding.
- Management will conduct random physical audits of the tools each month, comparing the actual number with those indicated in the tool inventory.”

d. Evaluation of Management Comments. Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on September 9, 2004.

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