

November 4, 2004

Internal Audit Report 2004-12
Weatherization Assistance Program
Weatherization Section
Social Services Division
Health and Human Services

Introduction. The Weatherization Assistance Program (Program), administered by the Health and Human Services Department (HHS), Weatherization Section (Section), provides residential weatherization services to low income households within the Municipality that meet eligibility requirements. For each eligible home, Program crews conduct an energy audit to determine the most cost-effective weatherization measures. Typical weatherization measures include: blowing insulation in the walls and ceilings; repairing and sealing ducts, doors, and windows; and tuning and repairing heating systems. Crews also install smoke detector(s) in each home and educate clients on basic energy efficiency practices. For the grant period from April 1, 2003, through March 31, 2004, the Program received grant funds totaling over \$1.4 million. In 2003, a total of 221 dwellings were weatherized.

Currently, the Section has 18 positions, with 16 for the Weatherization Program and two for the Minor Rehabilitation Program. In 2004, about 62 percent of the Program's budget was for Program salaries and benefits. As a result of recent labor contract negotiations, Program workers have been transferred to the IBEW bargaining unit so salaries will increase in the future.

Objective and Scope. The objective of this audit was to determine if the Weatherization Section complied with grant requirements and if the Program was administered according to grant intent and goals. Our audit included an inventory count of Weatherization tools and materials. In addition, we performed a comprehensive review of 41 Weatherization client files, selected both randomly and judgmentally from 2003 and 2004. Finally, we reviewed purchases, vendor contracts, and timesheets 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 Weatherization Section did not always comply with the grant agreement and the Program was not always administered according to grant intent and goals. Specifically, we found the following:

- ▶ Program productivity was questionable when compared to other Weatherization Programs in Alaska.
- ▶ Clients were not always timely notified of their eligibility status as required by the grant.
- ▶ Eligibility information was not always updated when weatherization work was not completed within 180 days.
- ▶ Spending limits for materials and labor were exceeded without ensuring the required 50/50 match by the building owner.
- ▶ Program staff did not always properly record weatherization labor hours.
- ▶ Program staff made a number of excessive purchases resulting in fewer dollars being available to weatherize client homes.
- ▶ The Program's inventory system lacked sufficient controls.
- ▶ Materials were not well organized or adequately secured in the warehouse.
- ▶ The Program inventory did not include damaged, broken or unusable items (shrinkage) such as doors and windows, making it difficult to account for these items.
- ▶ The inventory system used to track tools had significant control and accountability problems.
- ▶ Program assets were incorrectly reported on the Municipality's fixed asset list as capitalized items, thus overstating the value of Municipal assets.

FINDINGS AND RECOMMENDATIONS

1. Productivity of Program Questionable.

- a. **Finding.** In our opinion, staff productivity appeared low given the resources available. Alaska Housing Finance Corporation (AHFC) statistics comparing Weatherization Programs in Alaska revealed that the Interior Weatherization Program (IWX), located in Fairbanks, weatherized 140 homes with one crew consisting of three workers during the grant year 2003-2004. In comparison, the Municipality's Program weatherized 221 homes with two crews consisting of four workers each during the same time period. Although both programs perform similar work, the IWX weatherized about 47 homes per worker while the Municipality of Anchorage Weatherization Program weatherized about 28 homes per worker.

We also found that overtime was frequently used by employees. For example, three employees had 380 hours of overtime in 2003. Program staff routinely justified the overtime with having to draw down the grant funds. One of these three employees averaged 8 overtime hours most pay periods, resulting in a total of 208 overtime hours for the year worth \$8,619.

- b. **Recommendation.** The Health and Human Services Director should ensure that Program staff maximize Program funds for the direct benefit of clients.

c. Management Comments. Management stated,

“Management concurs with findings.

- This is a challenging issue that will require the partnership of Management, Employee Relations, and the IBEW Union. While Weatherization has always met its allotted quota of homes served (over 25 years of service), statistics provided by the grantor, Alaska Housing Finance Corp (AHFC), did indicate that our work crews were not as productive as other Weatherization programs within the State during the 2003 Program Year. However, this lack of production was due, in part, to new and inexperienced employees. During the 2003 Program Year, over 50% of the work crews had less than 1 year of experience and required numerous trainings (Lead-Safe Worker; Blower Door, Pressure Diagnostics, Weatherization Tech 1, etc.)
- The Fairbanks agency that MOA Weatherization is being compared with currently has a work crew that has more years of on-the-job experience, skills, and training.
- This year’s slower production led us to work overtime to assure that we would meet our mandatory annual quota of homes.
- Management is working aggressively to reorganize and retool the way that Weatherization does business. Options are being pursued that would make the program more effective and efficient such as contracting of skilled labor and roofing.”

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

2. Clients Not Properly Notified of Eligibility.

- a. **Finding.** Clients were not always provided notification letters regarding their eligibility for Program funds in 14 of the 41 client files we reviewed. According to the subgrantee operations manual provided by AHFC, applicants were to be notified within 10 days of their eligibility determination. As a result, applicants did not know if they had qualified for the Program.

In addition, when notification letters were provided to eligible clients, they did not provide all the information required by AHFC. As a result, eligible clients may not have received sufficient information about the weatherization process. The letter did not include the following details required in the subgrantee operations manual:

- Expected schedule for the home work plan and weatherization work, including their ranking for service;
- That the work will not proceed without the approval of both the owner (if it is a rental) and the client;
- Particulars necessary regarding purchase and installation of materials; and
- Requirements for final inspection, placement of weatherization decal, and future monitoring by AHFC and the federal government.

- b. **Recommendation.** The Program Manager should ensure that clients are notified of their eligibility within 10 days and that the notification letter contains the required information specified in the subgrantee operations manual.

c. Management Comments. Management stated,

“Management concurs with this finding.

- This issue was addressed when Management was alerted to the problem. Notification letters are now issued to clients within the 10 day period and were revised to meet the requirements of the grant as recommended by Internal Audit. These include:
 1. Expected schedule for the home work plan
 2. That the work will not proceed without the approval of both the owner and the client
 3. Information regarding purchase and installation of materials
 4. Requirements for final inspection, placement of weatherization decal, and future AHFC /Federal monitoring.”

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

3. Eligibility Not Updated When Work Exceeded 180 Days.

- a. Finding.** Eligibility information was not updated when the weatherization work was not completed within 180 days of the initial eligibility determination in 2 of 41 files we reviewed. As a result, Program funds might have been expended on clients that were no longer eligible for the funds. This was a finding in our prior audit (Internal Audit Report 92-10) of the Program. The subgrantee operations manual states that the applicant must supply any updated information which could alter their eligibility status.

b. Recommendation. The Program Manager should ensure clients provide updated eligibility information after 180 days.

c. Management Comments. Management stated,

“Management concurs with this finding.

- The Program Manager and the Application Intake staff have reviewed this issue per the recommendations of the Audit team. Applications are now set up in chronological order and will be reviewed weekly for the 180-day renewal requirements.
- Management will perform quarterly audits of 10-15 client folders to ensure compliance with this policy. Results will be documented and any negative findings will be corrected.”

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

4. Weatherization Services Exceeded Dollar Limit Without Required Match.

a. Finding. Documentation supporting the required 50/50 match was not found in 4 of 41 client files reviewed where spending limits for materials and labor exceeded the allowable \$1,000. Specifically, we found that the four projects exceeded the limit by \$1,080, \$624, \$647, and \$340. According to the AHFC 2004 State Plan, “Any further investment above that amount [\$1,000] will be matched 50/50 by the building owner and the subgrantee agency, not to exceed an additional \$1000/unit.”

b. Recommendation. The Program Manager should ensure that materials and labor exceeding the allowable charges are matched 50/50 by the building owner and Weatherization.

c. Management Comments. Management stated,

“Management concurs with the finding.

- The Program Manager will ensure that materials and labor meet the grant requirements or receive written approval from our grantor to exceed the allowable limits. In any case that it is found that clients are willing to contribute materials, Weatherization will match this contribution 50-50 up to allowable limits set by AHFC.
- The process for review of documentation has been tightened in order to provide for greater scrutiny. Each client’s work folder will be reviewed for the following costs before work is performed:
 1. Materials
 2. Labor
- Management will perform quarterly audits of 10-15 client folders to ensure compliance with this policy. Results will be documented and any negative findings will be corrected.”

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

5. Labor Hours Not Properly Recorded.

a. Finding. Labor hours were not always properly recorded. Specifically, we found that labor hours had not been recorded in the computer system in 3 of 41 files reviewed. Also, labor hours recorded by the crew leaders did not match labor hours entered into the Program's computer system in two other client files. As a result, personnel could not tell us the total labor hours for these projects. According to Weatherization Section personnel, labor hours should be entered each day by the work crew leaders on the front of each client file. After this is done, an accounting clerk transfers the labor hours from the client file to their computerized management system.

b. Recommendation. The Program Manager should ensure that labor hours are correctly recorded in the Program's computer system and on the client's file.

c. Management Comments. Management stated,

"Management concurs with this finding.

- Labor hours will be recorded per job each day by the crew leader in the client's folder.
- Additional training will be provided to appropriate staff by the end of October to ensure accurate labor records.
- Management will perform quarterly audits of 10-15 client folders to ensure compliance with this procedure. Results will be documented and any negative findings will be corrected."

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

6. **Excessive Purchases.**

- a. **Finding.** Our review of Program purchases revealed a number of excessive purchases. As a result, fewer dollars were available to weatherize client homes. Examples of some purchases we considered to be excessive are as follows:

- **Map Books** - Staff purchased 10 map books, one for each vehicle, and two wallmaps for a total of \$3,540. We asked to see what a map book looked like. Instead of finding the book in a vehicle as expected, it was sitting on a bookshelf in the Weatherization office. Although we understand that maps are useful to help locate client dwellings, other less expensive alternatives are available such as maps found on the Internet, common folding road maps, and simply calling the client to ask for directions.
- **LaserJet Printers** - In 2003, staff purchased three LaserJet printers costing \$5,665. In 2003 they also purchased an inkjet color printer using funds from the Minor Rehabilitation Program. Therefore, counting the printer they already had on hand, seven Program employees had five printers at their disposal.
- **Digital Cameras** - In addition to three digital cameras, since May 2003 Program staff have purchased six Polaroid "One Step" cameras and have spent nearly \$1,000 for film.

- **Work Boots** - Staff spent at least \$5,202 during the past two years on work boots. Some of these boots were for employees that left after only a short period of time. Other boots were purchased for employees whose non-union status did not allow for the purchase of boots to perform their job.
- **Batteries** - In 2003, staff purchased 2,200 Lithium batteries for \$9,570; 336 size AA batteries for \$373.66; and 216 size C batteries for \$188.82. When we asked what these batteries were used for, we did not receive satisfactory responses.
- **Carbon Monoxide and Smoke Detectors** - In 2003, staff purchased about 555 carbon monoxide detectors for \$22,169 and 2,000 smoke detectors costing \$32,000. A typical home requires two carbon monoxide detectors and four smoke detectors. Since 221 homes were weatherized in 2003, approximately 442 carbon monoxide detectors and 884 smoke detectors would have been needed.
- **Vehicles** - Six vehicles had been purchased for the Program. However, there are only two work crews, two auditors, and two supervisors. In addition, three other vehicles were purchased for the Minor Rehabilitation Program.

Finally, we noted an excessive amount of tools and equipment for the size of the Program's workforce. For example, the Program's inventory list showed 53 saws, 49 drills, 22 nail guns, and so forth. Such large quantities of tools make it difficult to maintain accountability and security of the items and probably contributed to the large shortages revealed in our tool inventory. In addition, the primary purpose of Program funds is to weatherize eligible homes, not to purchase unneeded equipment.

b. Recommendation. The Program Manager should evaluate purchases to determine if they are essential to fulfilling Program goals.

c. Management Comments. Management concurred and stated,

“Management recognizes the concerns raised in this finding.

- Management will evaluate purchases on a quarterly basis to ensure that these purchases are essential to fulfilling program goals. This evaluation will be documented and sent to our grantor, Alaska Housing Finance Corporation.
- Management acknowledges the critical relationship between an up-to-date inventory and the transparency of purchasing practices
- Internal Audit’s findings in this area have prompted Weatherization to create new policies for purchases and inventory.
- Specific items cited in findings:
 1. Map books are necessary to use as a reference to quickly and efficiently locate client’s homes. The Internet and common folding maps do not provide maps of trailer parks. Extra maps are purchased in the event that a map book is lost or damaged. All trucks currently have a map book.
 2. Printers. Weatherization has 3 black and white printers that are divided as follows: one is used by the Application Intake Clerk (Family Services Counselor); one is shared between the Program Manager, Warehouse Supply Clerk, and Accounting Clerk, and one is shared between the Field Supervisor, and Auditors. Weatherization has a Laser Jet color printer that is used to produce digital pictures to supply information as required by the grantor to complete Environmental Reviews. These digital pictures also provide

educational and informational tools to our work crews, clients, our grantors (AHFC and DOE), Program Advisory Committee and state legislators that control our funding. The inkjet color printer purchased for the Minor Rehabilitation Program has been used so frequently it is worn out. Printers are located so that work groups (Auditors, Intake Counselor, Accounting Clerk, Managers, and Warehouse Supply Clerk) can easily access them.

3. Polaroid cameras were used by the work crews and energy auditors to take pictures of homes and severe problems that were discovered during the course of Weatherization services. Staff has been directed to no longer purchase Polaroid cameras. Digital cameras are now used.
4. Boots. Collective Bargaining Agreements with AMEA and JCC required our program to purchase OSHA/ANSI approved protective footwear for our workers. The standard cost for this type of approved protective footwear is approximately \$170.00 per pair. Between 7/25/02-2/02/04, 32 pair of protective footwear were purchased for 21 employees for a total of \$5,202 (an average of \$162.56 per pair). Management did not know employees would leave shortly after footwear had been purchased for them. Management was not aware that non-union employees are not allowed to purchase protective footwear with program funds. Management will ensure that non-union employees purchase their own protective footwear. Due to the new IBEW collective bargaining agreement, Weatherization is no longer required to purchase protective footwear for their workers. However, the AMEA collective bargaining agreement still requires Weatherization to purchase protective footwear for its members (Auditors and Warehouse Supply Crews). Management will enforce

the policy that requires departing employees to return work clothing and protective footwear.

5. Batteries. The 2200 Lithium batteries were purchased through the competitive bid process to install in smoke detectors because they have a longer life. Bulk purchases have generally saved the program money over time. The AA and C size batteries are used in a variety of equipment such as Combustion Analyzers, Monoxers, head lamps, flashlights and other tools. Historically, these quantities of batteries have been used within 1-2 years from purchase date. When batteries are purchased they are checked for their shelf life expiration date to ensure their effectiveness will not expire before they are used. Management has implemented a new policy that Weatherization will no longer stock materials that cannot be used within a year's period.
6. Carbon Monoxide and Smoke Detectors were purchased in bulk quantity using the Municipality of Anchorage competitive bid process with the goal being, again, to get the best possible price. Also Weatherization's grantor, AHFC, states on page 2-27 of our Subgrantee Operations Manual 'Whenever possible or practical, subgrantees are encouraged to join with other agencies in bulk purchases of materials and equipment.' Management has implemented a new policy that Weatherization will no longer stock materials that cannot be used within a year's period.
7. Vehicles. Weatherization have six vehicles for the following reasons: two vehicles are used to transport the two Weatherization work crews and materials to different job sites; one vehicle is specially set-up to haul our insulation machine and insulation; two vehicles are used by the energy auditors because they perform at least one 6-8 hour audit each per day at different locations throughout the Municipality; and one vehicle is shared between the Field Supervisor, Warehouse

Clerk, and Program Manager. Management will assess the need for vehicles annually and adjust as needed based upon available funding.

- Inaccurate inventory records is the reason that it appears that the Program has an excessive amount of tools and equipment. Since Management was made aware of the level of discrepancy by Internal Audit, Management has worked with its grantor (AHFC) to correct the inventory records. These inventory records will be reconciled to the actual tool count that was conducted on October 5, 2004 by inventory specialist Brian O'Fallon. Alaska Housing Finance Corporation has agreed to review the updated inventory no later than November. This will allow Weatherization records to be accurate and up-to-date. All inventories will be based upon this up-to-date count. 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.
- The number of tools needed and purchased will be determined on an annual basis based upon review of documentation of need from the previous program year, the number of homes to be weatherized, and the availability of funding.
- Management has implemented a new policy that Weatherization will no longer stock materials that cannot be used within a year's period."

- d. **Evaluation of Management Comments.** Management's comments were generally responsive to the audit finding and were responsive to the recommendation. In responding to the audit finding, management rationalized the purchases we identified as excessive. Again, we emphasize that the Program's purpose is to provide low-income housing weatherization assistance, not to spend limited resources on excessive quantities of supplies and equipment.

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

- a. **Finding.** The inventory system used to track materials and supplies had significant control and accountability problems. Our review revealed that the material inventory was so inaccurate that it was nearly unauditable. As a result, losses of materials could go undetected 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 vehicles. After counting the materials, we compared our inventory results with Program inventory records. We found the following problems:

- 1) **Physical Inventory Variances** - Our physical inventory of materials revealed significant variances with inventory record balances. Specifically, of the 92 materials we matched to inventory records, 48 materials showed overages and 40 showed shortages. In the chart below we have listed some examples of inventory variances for selected materials.

Examples of Material Variances

	Per Inventory Records	Internal Audit's Inventory Count	Overage/ (Shortage)
Legacy Oak Casing	453	402	(51)
Door Stop Clear Pine	134	64	(70)
¾ x ¾ Clear Pine	191	40	(151)
T1-11 Plywood (sheet)	93	31	(62)
Awning Lever	42	95	53
Hilti Foam/Cans	223	300	77
10' Termination Bar	383	144	(239)
13W Fluorescent Lamp	905	873	(32)

- 2) **Material Variances Are Ongoing** - According to Weatherization personnel variances in the material inventory were ongoing. Even though staff performed a monthly material inventory count, they did not reconcile variances and never took the time to adjust their inventory records to correctly reflect the on-hand inventory at the time the inventory was taken.
- 3) **Materials on Record List Not Found** - We could not locate numerous items on the inventory records. Some examples of items that could not be located include pipe flashing, grills, roof deck insulation, and fluorescent lamp light fixtures.
- 4) **Materials Inventoried, But Not on Records** - Our material inventory count identified several items not recorded on the inventory records. These items included roof flashing, wall caps, china caps, and back flow preventers.
- 5) **Client Specific Purchases Not Inventoried** - Items purchased specifically for clients, such as windows and doors, were not included in the materials inventory records. Thus, accountability over the items was difficult to determine.

Several factors have contributed to the material inventory problems identified above. For example, the Program Manager told us that procedures to track the use of materials have not been enforced and need revision. In addition, some problems could have been avoided if management and staff had been properly trained. According to the Program Manager, he has not received sufficient training regarding inventory systems. Moreover, the supply clerk and the accounting clerk, who were hired within the last year, have received little training. Consequently, there were a number of clerical errors that contributed to the inventory discrepancies. For

example, on February 3, 2004, one invoice for 150 units of skirtboard rubber was entered as termination bar in the inventory system. As a result, the termination bar inventory was erroneously inflated by 150 units while the skirtboard rubber inventory did not include the 150 units.

Finally, reviews conducted by the grantor, AHFC, did not identify any problems with the materials inventory. Consequently, the Program Manager and HHS management saw no reason to modify inventory control procedures because of AHFC's positive feedback. For example, an AHFC review conducted in February 2004 stated that, "The program is running well . . . Keep up the good work. . . . Warehouse in excellent condition and tracking of materials very accurate." Since HHS management at all levels relied on these reviews to help them identify areas for improvement, they erroneously believed that materials were properly controlled and accounted for.

b. Recommendations. The Program Manager should:

- 1) Take a complete inventory of all materials.
- 2) Reconcile the inventory to the inventory records.
- 3) Research or investigate all inventory variances and file a police report if items appear to be stolen.
- 4) Correct inventory records to reflect the current on-hand balances and ensure the records are properly maintained to accurately show on-hand quantities.
- 5) Reevaluate and enforce procedures to track the use of materials.
- 6) Train all supervisory personnel and staff responsible for tracking the material inventory on proper inventory control and accountability procedures.
- 7) Include items purchased specifically for clients in materials inventory records.

Corrective action was implemented during the audit to correct these deficiencies.

c. Management Comments. Management stated,

“Management concurs with this finding.

- A complete inventory is underway of all materials in the warehouse; the physical inventory will then be compared to the electronic (computer) inventory tracked by the Weatherization database (WX Manager); and reconciliation of variances will be approved by our grantor, AHFC.
- Once the materials inventory is complete and approved by our grantor AHFC, any questionable variances will be investigated. If it appears that variances may have been due to theft, a police report will be filed for the record.
- Items specifically purchased for clients will be included in materials inventory.
- 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 Weatherization 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 personnel will be trained on proper inventory and accountability procedures.
- Appropriate personnel will receive additional training that includes inventory control using the WX Manager database, our daily client inventory usage forms and accountability procedures in November 2004 and also when the new database system from Alaska Housing Finance Corporation is made available.

- 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 be weatherized 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 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."

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

8. **Materials Not Organized or Secured.**

- a. **Finding.** Materials were not well organized or adequately secured in the warehouse. When performing our materials inventory we found items, such as smoke detectors and fans, in several locations throughout the warehouse instead of in just one location. In addition, other materials were hard to identify because there was no label on the shelf showing the name and part number. We also observed that materials stored in the warehouse were not properly secured. For example, we observed that the gate used to secure a majority of the materials was never closed.

In addition, when supplying their work trucks in the morning, we observed work crew members obtaining materials themselves instead of having the materials issued to them by the supply clerk as required by their internal policy. In addition, the Program Manager stated that work crew leaders did not always correctly fill out their materials check-out sheets according to their internal policy when obtaining materials.

b. Recommendations. The Program Manager should:

- 1) Reorganize the warehouse to limit access to materials to only authorized employees.
- 2) Label all materials, with name and part number, for easy identification.
- 3) Designate a location for each material in the warehouse.
- 4) Lock the warehouse gate when no one is present to supervise the warehouse.
- 5) Instruct all personnel to correctly fill out materials check-out sheets.

Corrective action was implemented during the audit to resolve these deficiencies.

c. Management Comments. Management stated,

“Management concurs with this finding.

- In August, as a result of Internal Audits preliminary findings, Weatherization staff and community service workers reorganized the warehouse and a memorandum has been issued to appropriate staff instructing them that access to materials will be limited to authorized personnel only.
- In response to the materials 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 materials organized and secure.

- Management has already begun the process of labeling materials with names and part numbers and designating locations for each material. Initial work on this action should be complete by December 2004.
- The warehouse gate is now kept locked when no one is present to supervise the warehouse.
- All crew personnel will be given additional training on material check out policies and procedures by November 2004. Compliance to these policies and procedures will be audited by Program Manager and the Warehouse Clerk and enforced by Management.
- Management will conduct weekly walk-through audits to ensure that materials are organized and secure.”

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

9. **Inventory Does Not Include Damaged, Broken or Unusable Materials (Shrinkage).**

- a. **Finding.** Items, such as doors and windows, not used for a specific client because they were damaged, broken, or otherwise deemed unusable were not entered into the Program’s inventory system. Although management stated that these items were returned to the warehouse, they were not entered into the inventory system when originally received or eventually returned. As a result, we were unable to verify that materials ordered for specific clients, and then deemed unusable, were actually returned to the warehouse. This was a finding in our prior audit (Internal Audit Report 92-10) of the Program.
- b. **Recommendation.** The Program Manager should ensure that controls are strengthened over items not used due to “shrinkage”.

c. Management Comments. Management stated,

“Management concurs with this finding.

- Weatherization will be using a new materials inventory control system provided by our grantor, Alaska Housing Finance Corporation, which is scheduled to be in use for our new grant period beginning April 1, 2005. It is Management’s understanding that this new system allows for tracking of shrinkage.
- Until the new system is fully operational, 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. Management, along with our grantor, AHFC, 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.

10. Tools Inventory System Lacks Sufficient Controls.

- a. Finding.** The inventory system used to track tools had significant control and accountability problems. Although AHFC found no problems with the equipment inventory when conducting their reviews, our review revealed the tool inventory was

inaccurate. As a result, tools could be lost without detection and staff may be purchasing tools that were already in stock.

On June 17, 2004, we conducted a surprise inventory count of all tools. This surprise inventory included tools stored on vehicles as well as tools stored in the warehouse. For the most part, we concentrated our efforts on tools valued at \$100 or more. After counting the tools, we compared our inventory results with the Program inventory lists. We found the following problems:

- 1) **Tools Not Found** - We could not find numerous tools listed on the tool inventory list. In fact, we could only locate about 55 percent of the tools. Some examples of larger tools that could not be found included a snow blower, compressors, generators, and a manually operated material lift. (See the chart below for a summary of the variances by tool category.) When we inquired about these tool shortages, the Program Manager told us that the tool inventory list was not accurate and was not accurate when he took over. He did remember that the snow blower had been given to the King Career Center at the direction of the HHS Building Manager several years ago. In addition, we were told by other Program staff that other tools had been disposed of, including a generator, a table saw, and an air compressor, again with no record of disposition. When we asked the Program Manager for documentation of these dispositions, he was unable to provide it because he had never been told that he had to document dispositions. He stated that he had never been trained or instructed on how to take an inventory or what to do if there were discrepancies.

Summary of Weatherization Tool Variances

	Tool Inventory Records	Internal Audit's Inventory Count	Overage/ (Shortage)
Saws	53	18	(35)
Drills	49	23	(26)
Miters	13	1	(12)
Nail Guns	22	16	(6)
Compressors	5	2	(3)
Generators	6	0	(6)
Ladders	19	17	(2)
Routers	3	1	(2)

When we went back to the Weatherization office about a week later to verify discrepancies, we were shown several tools that we could not find during our initial inventory. The items were a DeWalt angle drill, two Makita planers and two Makita sanders. The lack of organization in the warehouse made locating tools difficult. Tools, parts, and supplies were co-mingled and stacked in various piles all over the warehouse. For example, the planers were in a wall locker under numerous extension cords, air hoses, and other miscellaneous items. Both planers were in poor condition with broken blades. The sanders were also in the wall locker and were dirty with worn out belts. The angle drill was found, in plain sight, in a storage room that we had previously inventoried. It appeared to be in new condition.

- 2) **Tools Found, But Not Inventoried** - Our tool inventory count identified several items not found on the tool inventory list. These items included a time clock and scaffold kits.

- 3) **Tool Inventory List Lacked Detail** - The tool inventory list did not include all the detail required by the grant agreement. For example, the serial number, model, purchase date, purchase price, supplier, location, and condition were not always included on the tool inventory list. In addition, we found that the description for some tools was not adequate to properly identify the tool.

b. Recommendations. The Program Manager should:

- 1) Reorganize the warehouse to provide for a separate tool and equipment storage area.
- 2) Take a complete inventory of all tools and equipment.
- 3) Reconcile the results of the inventory to the inventory records.
- 4) Research or investigate all variances and file a police report if items appear to be stolen.
- 5) Implement procedures to properly document the disposition of all equipment.
- 6) Correct inventory records to reflect the current on-hand balances.
- 7) Update inventory records to include information required by the grant, such as model and serial number, if applicable, of all tools and equipment.
- 8) Broken tools should be repaired or disposed of according to Municipal Policies and Procedures if they are not repairable.
- 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. Purchases should then be limited to maintaining the required tools and equipment.

Corrective action was implemented during the audit to resolve these deficiencies.

c. Management Comments. Management stated,

“Management concurs with this finding.

- In August, as a result of preliminary findings of Internal Audit, Weatherization staff and community service workers reorganized the warehouse in line with recommendations.
- Reorganization will continue as Weatherization moves towards a separate tool and equipment storage area as current space and funding allows.
- Inventory specialist Brian O’Fallon and Weatherization Supply Clerk Rick Martinez, inventoried the tools on October 5, 2004. This actual inventory will be compared to our existing tool inventory records and reconciliation of variances will be reviewed and approved by our grantor, AHFC.
- Once the tools inventory is complete and approved by our grantor AHFC, any questionable variances will be investigated. If it appears that variances may have been due to theft, a police report will be filed for the record.
- Weatherization is implementing a system that requires our grantor to approve disposing of all tools and equipment. Repair or disposal of tools will be done according to Municipal and grant policies and procedures and documented.
- 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 Weatherization 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.
- Inventory control and accountability procedures training will be provided to supervisory, field, and warehouse staff throughout the months of November and December 2004.

- Management will ensure that inventory records are updated to include information required by the grant by December 2004.
- Management will conduct random physical audits of the tools each month, comparing the actual number with those indicated in the tool inventory.
- Tool 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 be weatherized and the availability of funding) to estimate the number and type and number of tools necessary for the coming program year.
- 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.”

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

11. **Weatherization Assets Incorrectly Reported.**

- a. **Finding.** During the grant year 2003-2004, about \$10,165 in Program assets were incorrectly reported on the Municipality’s fixed asset list as capitalized items. In addition, about \$31,676 in assets purchased during prior grant years may have been erroneously placed on the Municipality’s fixed asset list. As a result, the value of the Municipality’s fixed assets was overstated. The grant agreement between the Municipality and AHFC states, “AHFC will retain ownership of any item or service purchased or leased-purchased with grant funds and costing \$100.00 or more.”

- b. Recommendation.** Program assets currently recorded as capitalized assets of the Municipality should be removed from the fixed asset list or classified as non-capitalized assets.
- c. Management Comments.** Management concurred and stated,
- “• Heather Wheeler, Management Support Division Manager, is working with the Municipality of Anchorage Controller and Internal Audit staff to revise DHHS policy and procedure for accurately reporting assets purchased with grant dollars.”
- 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 August 30, 2004.

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