

November 16, 2006

**Internal Audit Report 2006-17**  
**Weatherization Assistance Program Follow-up**  
**Department of Neighborhoods**

**Introduction.** The purpose of the Weatherization Assistance Program (Program) is to improve the health and welfare of residents by upgrading their dwellings to make them more energy efficient, safe, and comfortable. The grant-funded Program serves eligible residents who meet federal low-income criteria and live within the Municipality of Anchorage. Participants may either own or rent dwellings for which they are requesting weatherization services. Eligible weatherization services may include, but are not limited to, blowing insulation into walls and ceilings; repairing and sealing ducts, doors, and windows; and tuning and repairing heating systems. Each dwelling is limited to one-time-only program participation unless prior upgrades to the dwelling were completed before September 30, 1993. Weatherization projects are subject to compliance with the federal regulations found at 10 CFR 440 and Alaska Housing Finance Corporation (AHFC) policies as set in the Low-Income Weatherization Assistance Program Subgrantee Operations Manual (Weatherization Manual).

The Program has been managed and administered by the Department of Neighborhoods (Department) since April 1, 2005. In the 2005 program year, the Department weatherized 161 dwellings and expended \$1,050,580 of grant funds, as compared to 2003 when 221 dwellings were weatherized for \$1,569,219. According to Department management, there are currently 8.4 full-time equivalent employees in the Department that are directly associated with the Program.

**Objective and Scope.** The objective of this audit was to determine whether the deficiencies identified in our prior Internal Audit Report 2004-12 related to the administration of the

Weatherization Assistance Program had been corrected. Our audit included an inventory of all materials and selected tools and a review of 74 client files.

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 July through August 2006. The audit was requested by the Municipal Assembly.

**Overall Evaluation.** The Department has made improvements in administering the Program since it was transferred from the Health and Human Services Department on April 1, 2005. However, there are still areas that need to be improved. Nine of the eleven findings were implemented, one finding was partially implemented, and one finding was not implemented by the Department. The audit also disclosed that some assets were not recorded in the Municipal fixed asset records.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Weatherization Services Exceeded Dollar Limit Without Required Match.**

- a. Finding.** Documentation supporting the required 50/50 match was not found in 16 of 35 client files reviewed where spending for materials and labor exceeded allowable limits. Specifically, 10 projects exceeded the \$1,000 spending limit, ranging from \$216.15 to \$1,639.36, and 6 projects exceeded the \$1,500 spending limit, ranging from \$115.14 to \$1,849.69. According to the Weatherization Manual, the Program will provide up to \$1,000 or \$1,500 in materials and labor depending on the dwelling's specific characteristics. Any further investment above these amounts should be matched 50/50 by the building owner and the Department.

In addition, for one client, the required match was supported by invoices instead of receipts. The invoices appeared questionable since they were from companies owned by the building owner and did not evidence the actual purchase of materials. In one case, an invoice was for replacing a lavatory sink, drain, and faucet, which may not meet the Program's intent. According to the Weatherization Manual, "The Weatherization agency will determine the value of improvements, using actual receipts for materials." **A similar condition was reported in Internal Audit Report 2004-12, Finding 4.**

- b. Recommendation.** Materials and labor exceeding the allowable charges should be properly documented and matched 50/50 by the building owner and the Department.
- c. Management Comments.** Management concurred and stated, "There are two issues raised by the finding, one relates to exceeding limits, and one relates to the method of documenting match when limits are exceeded with a landlord's pledge to match the excess dollar for dollar.

"Related to the first aspect, management has taken three steps to prevent this from occurring in the future. 1) Management has reminded Assessors/Housing Coordinators to keep careful track of rental units to prevent overages that will result in projects exceeding limits, has presented the over-limit projects to the Assessors/Housing Coordinators to point out the overages. 2) Management has created a report that clearly compares project costs to any applicable limits, and will use this report to identify what, if any, projects run over the limits. Housing Coordinators will be reminded that for these projects, proper documentation must be included in the file showing owner contribution, or any approvals from AHFC for unexpected cost overruns are in the file. 3) Management has requested, and received, direction from AHFC with regards to what to do when rental projects go over budget by a small amount. AHFC has clarified its policy to state that when projects are over

budget by less than 20% (ie \$200.00 for units at a \$1,000 limit, and \$300 for units at a \$1,500 unit), no AHFC approval is required. For projects that go over budget more than that amount without documentation of 50/50 match by the owner, AHFC approval must be requested and any approvals included in the file. This policy will effectively allow a contingency factor for these projects which, with the very low dollar limits, otherwise have extremely little room for cost estimating error.

“Regarding the second aspect of this comment, management has also clarified with AHFC that for owner leverage that is not for materials but rather for service, invoices are sufficient. Invoices are standard for services, whereas receipts are standard for materials. This clarification is now in our Policy and Procedures. For the file questioned by Internal Audit, much of the work evidenced by the invoices was to install material provided by the Weatherization program. As part of the final inspection documentation in the file, the evidence of owner contribution is strengthened by inspections by our Final Inspector that the work was actually completed. Without the owner contribution, these projects would not have been accomplished. In the future, as part of the monthly review now triggered by the report identified in the prior paragraph, Management will review owner contribution documentation in rental projects on an ongoing basis to ensure it is appropriate.”

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

## 2. **Assets Not Recorded in Municipal Fixed Asset Records.**

- a. **Finding.** Program assets costing between \$100 and \$250 were not recorded in the Municipality’s fixed asset records. According to the 2006 contract, “AHFC will retain ownership of any item or service purchased or lease-purchased with grant funds and costing \$250.00 or more.” In addition, Municipal Policy and Procedure

(P&P) 24-13, *Fixed Asset and Infrastructure Accountability*, states that the Department is responsible for safeguarding, inventorying, and accounting for fixed assets with a value greater than \$100 and an expected useful life exceeding one year. Further, P&P 24-13.7.b states that “Fixed Asset Records will be updated with all purchases, donations, disposals and transfers of fixed assets in the fiscal quarter when the activity occurs.”

- b. **Recommendation.** Program assets costing more than \$100 and not owned by AHFC should be recorded in the Municipality’s fixed asset records in accordance with P&P 24-13.
- c. **Management Comments.** Management concurred and stated, “Prior to April of 2006, the Weatherization contract had stated that AHFC retains ownership of anything not installed into a client’s home that has a purchase price of \$100.00 or more. With the April 2006 contract, this threshold was increased to \$250.00. It is still unclear if AHFC retains ownership of materials between \$100 and \$250 which were purchased under the older contracts. Management will clarify this with AHFC and add any items with purchase prices between \$100 and \$250 to the inventory lists before the end of the year.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Tool Inventory Records Lacked Details.**

- a. **Finding.** The Program’s tool inventory list did not include all the details required by the grant agreement. For at least half of the items, the serial number, model, purchase date, purchase price, supplier, location, and condition were not always provided on the tool inventory list. In addition, we found that scaffolding had not

been recorded on the Program's tool inventory records. **A similar condition was reported in Internal Audit Report 2004-12, Finding 10.**

- b. Recommendation.** Inventory records should be updated to include information required by the grant, such as model and serial number, if applicable, of all tools and equipment.
- c. Management Comments.** Management concurred and stated, "All inventory fields will be filled with either the appropriate data, including 'n/a' or 'unknown' if appropriate, by the end of this quarter."
- 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 October 2, 2006.

Audit Staff:  
Marina Mazour