

STATE OF NEVADA

Audit Report

Department of Business and Industry
Housing Division

2012



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of Legislative Auditor report on the Housing Division issued on April 17, 2012. Report # LA12-14.

Background

One of the Division's responsibilities is to administer the Low-Income Weatherization Assistance Program. The weatherization assistance program uses state and federal funding to provide weatherization measures to low-income households. The objective of the program is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety. The process of making the dwellings energy-efficient includes installing energy measures such as insulation, energy efficient windows, and solar screens. To carry out this program, the Division selects subrecipients that determine applicants' eligibility and hire contractors to install the weatherization measures. The American Recovery and Reinvestment Act (ARRA) of 2009 provided a significant increase to weatherization funding. Weatherization program funding increased from approximately \$5.7 million in fiscal year 2009 to approximately \$26.9 million in fiscal year 2011.

Purpose of Audit

The purpose of this audit was to determine if the Division has established adequate controls to ensure compliance with ARRA weatherization program requirements and accurate reporting of performance information. This audit included a review of the Division's ARRA funded weatherization project activities and reported performance information during fiscal years 2010 and 2011.

Audit Recommendations

This audit report contains two recommendations to help improve subrecipients' verification of applicant eligibility, and documentation of contractor inspections. In addition, one recommendation was made to help improve the accuracy of some reported performance information.

The Division accepted the three recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on July 12, 2012. In addition, the six-month report on the status of audit recommendations is due on January 14, 2013.

Housing Division

Department of Business and Industry

Summary

The Division's oversight of ARRA weatherization funding was effective and helped ensure funding was spent timely and appropriately. As of December 2011, about \$35.7 million was expended to install weatherization measures in low-income homes and typically included attic and floor insulation, energy efficient windows, or solar screens. Controls to monitor subrecipients and contractors' activities were established by the Division and contributed to the program's success. However, the Division can strengthen a few processes related to subrecipients' documentation of inspections and verification of applicants' program eligibility.

The Division has established an effective method to collect reliable performance information for the weatherization program. Specifically, it developed a database that tracks subrecipient weatherization activities, and staff performs procedures to validate the information reported in the database. Reliable information is important so the Division can monitor subrecipients' activities and report program results. Although we found the reported information to be reliable, the Division can improve the accuracy of data in a few areas.

Key Findings

The Division established an effective process to ensure ARRA weatherization funding was spent timely and directed at cost-effective weatherization measures. This funding was allocated throughout the State to help low-income families. Our review of 100 files, totaling about \$1 million in project costs, identified that funds were spent on priority measures that were billed according to pre-approved contractor prices. (page 5)

The Division has established controls to monitor subrecipients. Our review of 100 project files found subrecipients were timely when: (1) approving applications, (2) performing energy assessments, (3) completing projects, and (4) performing final project inspections. The Division's controls help provide reasonable assurance that subrecipients' activities comply with program requirements and that weatherization funds are used appropriately. (page 6)

The Division has established controls to ensure effective monitoring of contractors' work. Effective monitoring of contractors helped ensure approved weatherization measures were installed and the workmanship was of good quality. Our inspection of 40 homes identified only a few instances where measures paid for were not installed. These uninstalled measures totaled \$1,092 of approximately \$405,000 in project costs, less than 1% of the amount inspected. Although monitoring was effective, we identified a few instances where inspection forms, used by the subrecipients to review contractor work, were not properly completed. (page 7)

The process to determine applicant eligibility for the weatherization program can be strengthened. Although subrecipients documented applicants' reported income and household size, additional documentation and procedures would help verify all household income is correctly reported. For 19 of 100 weatherization files tested, better documentation was needed to support the applicants' incomes. In addition, 28 files contained conflicting documentation pertaining to the household size. When adequate steps are not taken to verify applicants' incomes, limited weatherization funding may not be available for those applicants that need it the most. (page 9)

The Division has reliable performance information related to its weatherization activities. Our testing found only a 4% error rate when reviewing weatherization information used by the Division to report performance. Reliable performance information is important so the Division can monitor subrecipients' weatherization activities. Furthermore, governing officials and citizens can use this information to evaluate the results of the Division's program. (page 13)

The weatherization data reported by the Division is reliable; however, additional training and monitoring can improve data accuracy in a few areas. Although our testing identified an overall error rate of only 4%, the errors identified occurred more frequently in certain areas. For example, for 28% of the files reviewed, subrecipients did not input the correct draft reduction amounts realized through their installation of weatherization measures. Providing additional training and monitoring to subrecipients will help improve data reliability in areas where errors were more frequent. (page 14)

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This report contains the findings, conclusions, and recommendations from our completed audit of the Department of Business and Industry, Housing Division. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes three recommendations to help strengthen the Division's oversight of the Weatherization Assistance for Low-Income Persons program. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

March 26, 2012
Carson City, Nevada

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Introduction

Background

The Housing Division (Division) is a division within the Department of Business and Industry. The Division was created by the Nevada Legislature in 1975 when it was recognized that a shortage of safe, decent, and sanitary housing existed throughout the State for persons and families of low- and moderate-income. The Division is tasked to stimulate the financing of low- and moderate-income housing using public and private financing.

Staffing and Programs

Offices for the Division are located in Carson City and Las Vegas. As of December 2011, the Division had 25.5 filled positions. The Director of the Department of Business and Industry appoints the Housing Division Administrator.

Major programs administered by the Division include:

- Single Family Mortgage Revenue Program
- Multi-Family Mortgage Revenue Bond Program
- Low-Income Housing Tax Credit Program
- Account for Low-Income Housing Trust Fund
- Low-Income Weatherization Assistance Program

Low-Income Weatherization Assistance Program

Our report focuses on the Division's administration of the Low-Income Weatherization Assistance Program, and specifically the use of funds received through the American Recovery and Reinvestment Act (ARRA) of 2009. The weatherization assistance program uses state and federal funding to provide weatherization measures to low-income households. The objective of the program is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their

total expenditures on energy, and improve their health and safety. The process of making the dwellings energy efficient includes installing energy measures such as, but not limited to, insulating ceilings and floors, sealing gaps and cracks, replacing drafty windows and doors, sealing ducts, and installing window solar screens. The Division oversees the program and monitors subrecipients' activities.

In 2009, the Legislature approved Senate Bill 152. This bill provided for the use of incentives contained in ARRA to provide job training, promote energy efficiency, and promote the use of renewable energy in Nevada. This bill specifically tasked the Division and the Department of Employment, Training and Rehabilitation to establish contractual relationships with nonprofit organizations to provide training in fields such as weatherization, energy retrofit applications, and energy audits. In addition, the Division was required to contract with nonprofit organizations to identify neighborhoods that would qualify for residential weatherization projects.

ARRA provided a significant increase to weatherization funding. Weatherization program funding increased from approximately \$5.7 million in fiscal year 2009 to approximately \$26.9 million in fiscal year 2011. Exhibit 1 provides weatherization funding details for fiscal years 2009 to 2011.

Weatherization Funding **Exhibit 1**
Fiscal Years 2009 to 2011

Revenue Source	FY 2009	FY 2010	FY 2011
Beginning Funds	\$1,120,179	\$ 736,527	\$ 1,354,032
Federal Grant - ARRA	-	13,148,945	18,725,152
Universal Energy Charge	3,070,152	2,985,124	2,954,942
Federal Receipts (DOE Base)	876,210	2,542,538	637,364
Federal Grant - ARRA – SERC ⁽¹⁾	-	-	2,765,190
Transfer From Welfare	682,126	594,050	198,016
Private Grant	-	198,000	222,750
Total	\$5,748,667	\$20,205,184	\$26,857,446
Balance Forward	\$ 736,527	\$ 1,354,032	\$ 1,298,286

⁽¹⁾ Sustainable Energy Resources for Consumers (SERC) grants are for weatherization projects using renewable energy sources like solar power.

Source: State accounting system.

For fiscal years 2010 and 2011, most ARRA funding was used to install weatherization measures. Funding was also used to support Division and subrecipient administrative expenses, provide training, and purchase vehicles and equipment used by subrecipients. Exhibit 2 provides additional details of how ARRA weatherization funding was spent in fiscal years 2010 and 2011.

ARRA Weatherization Expenditures **Exhibit 2**
Fiscal Years 2010 and 2011

Expenditures	FY 2010	FY 2011	Total	Percent of Total
Program Operations (Contractor Costs)	\$ 9,080,981	\$14,429,552	\$23,510,533	76%
Health & Safety ¹	869,373	1,510,329	2,379,702	8%
NHD Administration ²	1,816,659	419,898	2,236,557	7%
Program Overhead ³	722,938	624,161	1,347,099	5%
Subrecipient Administration	359,345	628,390	987,735	3%
Miscellaneous ⁴	258,853	104,787	363,640	1%
Total	\$13,108,149	\$17,717,117	\$30,825,266	100%

¹ Costs related to the mitigation or elimination of energy related health and safety hazards like HVAC equipment repair/replacement, lead based paint removal, and carbon monoxide alarm installation.

² Includes \$1,626,920 transferred to DETR in FY 2010 for carrying out job training in fields relating to energy efficiency.

³ Salary and fringe benefits of outreach/intake workers and field staff, vehicle and equipment maintenance, etc.

⁴ Includes costs for training, technical assistance, insurance, and vehicles and equipment purchases.

Source: Housing Division records.

Appendices A and B provide additional information on weatherization projects by county including the number of projects completed, project expenditures, and people served in fiscal years 2010 and 2011.

National ARRA Weatherization Program Problems

Nationally, the weatherization program has experienced problems. Many states struggled at first to scale up their programs quickly and effectively. Charges of mismanagement have plagued a few states. For example, the U.S. Department of Energy conducted an audit of one state's weatherization program and found measures were installed with substandard workmanship. They

also determined that the state did not always ensure contractors' material costs were reasonable. An audit performed in another state reported the state did not ensure that the subrecipients followed key controls over its weatherization program resulting in an increased risk of fraud, waste, and abuse.

Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included a review of the Division's ARRA funded weatherization project activities and reported performance information during fiscal years 2010 and 2011. The objective of this audit was to determine if the Division has established adequate controls to ensure compliance with ARRA weatherization program requirements and accurate reporting of performance information.

Division Oversight of ARRA Weatherization Funding Was Effective

The Division's oversight of ARRA weatherization funding was effective and helped ensure funding was spent timely and appropriately. As of December 2011, about \$35.7 million was expended to install weatherization measures in low-income homes and typically included attic and floor insulation, energy efficient windows, or solar screens. Controls to monitor subrecipients and contractors' activities were established by the Division and contributed to the program's success. However, the Division can strengthen a few processes related to subrecipients' documentation of inspections and verification of applicants' program eligibility.

ARRA Weatherization Funding Spent Timely and Appropriately

The Division established an effective process to ensure ARRA weatherization funding was spent timely and directed at cost-effective weatherization measures. This funding was allocated throughout the State to help low-income families. Our review of 100 files, totaling about \$1 million in project costs, identified that funds were spent on priority measures that were billed according to pre-approved contractor prices. The Division's process provided reasonable assurance that state and federal requirements were followed and program participants received energy saving measures.

The process established by the Division has helped ensure ARRA funds were spent timely. The Division received approximately \$37 million in ARRA funding for its weatherization program. As of December 2011, about \$35.7 million was expended for weatherization activities. In contrast, other states have experienced difficulties spending their ARRA weatherization funds and risk losing those funds. The Department of Energy originally

established a deadline of March 31, 2012, for ARRA fund recipients to complete their spending. According to Division personnel, the Department of Energy is willing to extend the deadline in some cases.

The Division developed a process for allocating funding based on population and need. Once funding was allocated by area, the Division issued a request for proposals and received proposals from subrecipients. Subrecipients' proposals were evaluated and scored by a committee. Funding was then allocated based on proposal scores to all six subrecipients that applied in fiscal year 2011.

Controls over contractor pricing were established by the Division. Subrecipients hire contractors to install weatherization measures. The measures installed come from a priority list developed by the Division for different regions in Nevada. Weatherization contractors were required to submit pricing for these measures and their pricing was not approved unless it was cost effective as determined by a savings to investment ratio. Savings to investment ratios are used to determine if the cost of a measure will be recovered through the energy savings generated over the useful life of the measure.

The process implemented by the Division provides state and federal officials with reasonable assurance that ARRA funds were spent timely and used to install cost effective weatherization measures.

**Controls
Established to
Monitor
Subrecipients**

The Division has established controls to monitor subrecipients. These controls include continued monitoring of subrecipients financial and program activities related to the weatherization program. Our review of 100 project files, totaling about \$1 million in project costs, found subrecipients were timely when: (1) approving applications, (2) performing energy assessments, (3) completing projects, and (4) performing final project inspections. The Division's controls help provide reasonable assurance that subrecipients' activities comply with program requirements and that weatherization funds are used appropriately.

For the 100 project files tested, we found the weatherization process was timely. The process to approve an application and install weatherization measures includes:

- Application Approval: Subrecipients document applicants' household size and self-reported sources of income to determine if they meet the income requirement.
- Energy Assessment: Subrecipient or contractor inspects home to identify priority weatherization measures that should be installed. Once these measures are identified, the subrecipient approves installation.
- Installation of Weatherization Measures: Subrecipients select approved contractors to install measures. Contractors must meet the requirements of Senate Bill 152 and are selected on a rotating basis by subrecipients.
- Project Inspection: Once all weatherization measures are installed, subrecipients inspect contractors' work. In addition, the Division inspects at least 10% of the projects completed by each subrecipient.

Because the Division has developed an effective process for monitoring subrecipients' activities, we identified few exceptions while auditing project files. The Division's process includes regular site visits and reviews of subrecipients' financial and program activities. As part of the financial review, the Division reviews subrecipients' accounting controls and monthly reimbursement requests. For the program review, Division staff follows a checklist and makes sure appropriate supporting documentation is maintained. These controls provide the Division with reasonable assurance that subrecipients' activities comply with program requirements and that weatherization funds are used appropriately.

Monitoring of Contractors' Work Was Effective

The Division has established controls to ensure effective monitoring of contractors' work. Effective monitoring of contractors helped ensure approved weatherization measures were installed and the workmanship was of good quality. In addition, proper installation of weatherization measures helps ensure recipients realize energy savings. Our inspection of 40 homes identified only a few instances where measures paid for

were not installed. These uninstalled measures totaled \$1,092 of approximately \$405,000 in project costs, less than 1% of the amount inspected. Although monitoring was effective, we identified a few instances where inspection forms, used by the subrecipients to review contractor work, were not properly completed.

Weatherization Measures Installed Correctly

During the audit, we inspected 40 weatherized homes and found that almost all measures paid for were installed and the installation was done correctly. After contacting weatherization participants, we traveled to their homes and inspected all measures that the contractor reported installing. For example, our inspections included verifying heating and cooling system models, measuring window and solar screen dimensions, and accessing attics and crawl spaces to ensure insulation was installed.

Our inspection of 40 homes identified only a few instances where measures paid for were not installed. These uninstalled measures totaled \$1,092, less than 1% of the \$405,000 in project costs inspected. Most uninstalled measures were windows or solar screens that contractors included in their original estimates; however, the window or solar screen was not installed for some reason and was not removed from the final billing.

Effective monitoring of contractors helps ensure approved weatherization measures are installed and the workmanship is of good quality. In addition, proper installation of weatherization measures helps ensure recipients realize energy savings. During our inspection of homes, recipients of weatherization measures stated they observed a decrease in their energy bills, and in some cases felt more comfortable in their homes.

Documentation of Inspections Can Be Improved

For 11 of 100 files tested, subrecipients did not properly complete inspection forms used to review contractor work. These forms did not include all measures installed, or the inspector did not document inspecting a specific measure. The cost for these installed measures was about \$25,000 and can be grouped in the following categories:

- For three projects, the contractor listed the measure on the inspection form, but the subrecipients' inspectors did not document inspecting the measure.
- For seven projects, the contractors did not include all installed measures on the inspection form.
- For one project, two exceptions were noted: (1) the contractor did not include all installed measures on the inspection form, and (2) the subrecipient's inspector did not document inspecting all measures.

Best practices for carrying out a regulatory program include providing formal training to new inspectors and periodic training to all inspectors on how to use, interpret, and apply standardized checklists or guides accurately, consistently, and fairly.

Controls have been developed and implemented to help monitor contractors' work. The Division has a standard inspection form and subrecipients are required to inspect all homes once contractors complete work. In addition, the Division selects 10% of completed projects for inspection. However, subrecipients do not always compare the inspection form to the contractor's scope of work or invoice before performing the final inspection. Therefore, periodic training regarding inspections will help improve the quality of the inspection process.

Eligibility Process Can Be Strengthened

The process to determine applicant eligibility for the weatherization program can be strengthened. Although subrecipients documented applicants' reported income and household size, additional documentation and procedures would help verify all household income is correctly reported. For 19 of 100 weatherization files tested, better documentation was needed to support the applicants' incomes. In addition, 28 files contained conflicting documentation pertaining to the household size. When adequate steps are not taken to verify applicants' incomes, limited weatherization funding may not be available for those applicants that need it the most.

Subrecipients are required to document proof of income eligibility. Income is defined as cash receipts earned or received by the household and includes:

- wages and salaries before deductions,
- net income from self-employment,
- regular payments from social security or private pensions,
- government employee pensions,
- dividends and/or interest,
- periodic receipts from estates or trusts, and
- net gambling or lottery winnings.

To be eligible for ARRA weatherization funding, an applicant's household income has to be at or below 200% of the federal poverty level. Exhibit 3 shows the 2011 federal poverty levels based on household size.

**Federal Poverty Levels
Fiscal Year 2011**

Exhibit 3

Household Size	Poverty Threshold	ARRA Weatherization Eligibility (200% of Threshold)
1	\$10,890	\$21,780
2	14,710	29,420
3	18,530	37,060
4	22,350	44,700
5	26,170	52,340
6	29,990	59,980
7	33,810	67,620
8	37,630	75,260
Each Additional Member Add	\$ 3,820	\$ 7,640

Source: DOE Weatherization Program Notice 11-5.

Additional Documentation to Verify Income Needed

Some subrecipient files tested needed additional documentation to help verify applicants were eligible for the weatherization program. We observed the following income verification problems for 19 of 100 files tested:

- For nine files, the application listed multiple household members above the age of 18; however, the file did not

contain a required zero income statement form signed by all individuals that declared having no income. The zero income statement requires individuals to attest how basic living expenses are being met without current income.

- For seven files, the file did not include sufficient documentation to determine if the applicant was eligible based on the information provided by the applicant. For example, one applicant provided a bank account statement with balance and deposit information blacked out.
- For one file, neither the required zero income statement form was present nor documentation of the applicant's income from a business. The applicant reported business income decreased, but the file did not contain documentation showing the current income earned from the business.
- For two files, not all eligible income was calculated by the subrecipients to determine the applicants' eligibility. For example, one applicant provided a prior year tax return, which showed IRA distributions received. These distributions are to be included when calculating applicants' incomes. If the subrecipient had included this applicant's IRA distributions with the other income used to calculate eligibility, total income would have exceeded the eligible income level by \$1,345.

Although the Division has established policies defining what should be included as income, it has not developed procedures for the subrecipients to follow. As a result, subrecipients are not consistent as to the procedures and documentation they use to verify income. In addition, subrecipients rely on the applicant to be truthful and do not use other resources already available, like tax returns and bank statements, to help verify eligibility.

Verification of Household Size Can Improve

When reviewing files for income verification, we also found 28 files included conflicting documentation regarding the number of household members. Subrecipients' files usually contain an application form and another form used by contractors to track air leakage in a home before and after weatherization work is completed. The application contains the self-reported household members, and the other form contains the household members observed by the contractor or reported to the contractor by the

applicant. For 28 files tested, the number of household members on both forms did not agree. In most instances, the difference between the household size reported by the applicants and contractors was one.

During our inspections of weatherized homes, we observed two homes where the number of people living in the home did not match what was reported on the application form. For one home, the application reported one person living in the home. However, when we inspected the home, additional people were living in the home. Based on statements made by a family member, other adults were living in the home when it was weatherized. The contractor's form for this home identified five occupants living in the home.

As indicated in Exhibit 3 on page 10, the poverty threshold is based on household size. Therefore, the Division and its subrecipients cannot be sure a home qualifies for weatherization work unless all household members are identified and their incomes are verified.

Recommendations

1. Provide additional training to subrecipients regarding the inspection of weatherized units.
2. Develop additional procedures for subrecipients that include gathering and documenting more information to substantiate applicants' household size and total income.

Weatherization Performance Information Is Reliable

The Division has established an effective method to collect reliable performance information for the weatherization program. Specifically, it developed a database that tracks subrecipient weatherization activities, and staff performs procedures to validate the information reported in the database. Reliable information is important so the Division can monitor subrecipients' activities and report program results. Although we found the reported information to be reliable, the Division can improve the accuracy of data in a few areas.

Division Established Effective Method to Collect Weatherization Information

The Division has reliable performance information related to its weatherization activities. Our testing found only a 4% error rate when reviewing weatherization information used by the Division to report performance. Reliable performance information is important so the Division can monitor subrecipients' weatherization activities. Furthermore, governing officials and citizens can use this information to evaluate the results of the Division's program.

We reviewed data entered into the Division's Building Weatherization Report (BWR) database and found an overall error rate of only 4%. This database is used to collect and compile reported weatherization information. Information entered into the BWR was compared to subrecipients' project files. For only 119 of 3,000 entries tested, the information input into the database did not match that contained in the subrecipients' files. We also tested reported program cost information and found it to be reliable.¹ Performance information is considered reliable when it

¹ Weatherization information tested included the number of weatherization projects performed, project costs, and energy saving generated, but did not include job creation information.

is sufficiently complete and substantially error free to be convincing for its purpose and context.

To help collect and report reliable information, the Division developed the BWR that tracks subrecipients' weatherization work. Subrecipients input monthly project information into the database. Division personnel then perform procedures to validate the information. Furthermore, the database has preprogrammed formulas, developed by experts in weatherization energy savings, which automatically calculate each project's energy savings based on the measures reported as installed.

Division personnel also perform other procedures to help ensure weatherization information is reliable. For example, Division personnel perform program reviews. During these reviews, they will visit subrecipients' offices and randomly select project files to verify reported information. Furthermore, the Division monitors subrecipients' financial operations. Monitoring activities include site visits and reviews of subrecipients' reported weatherization program costs.

Accuracy of Some Weatherization Data Can Be Improved

The weatherization data reported by the Division is reliable; however, additional training and monitoring can improve data accuracy in a few areas. Although our testing identified an overall error rate of only 4%, the errors identified occurred more frequently in certain areas. For example, for 28% of the files reviewed, subrecipients did not input the correct draft reduction amounts realized through their installation of weatherization measures. Providing additional training and monitoring to subrecipients will help improve data reliability in areas where errors were more frequent.

Although our testing identified a low error rate overall, the errors identified occurred more frequently in a few areas. The following examples show those areas with the most frequent errors:

- For 28% of the files reviewed, the subrecipients did not input the correct draft reduction amounts realized through the installation of weatherization measures. Contractors perform preliminary tests to determine the amount of air leakage or draft that occurs in a home. After performing

work to seal holes in the home, another test is performed. The difference between the two measurements is the draft reduction amount.

- For 17% of the files reviewed, the subrecipients did not input the correct data related to the existing insulation or installation of additional insulation.
- For 9% of the files reviewed, the project costs input into the database were the total project costs and not the ARRA funded costs. Most of the exceptions came from one subrecipient that was not aware only ARRA funded costs should be included.

Accurate information is important to help ensure managers and decision-makers have reliable information regarding program results. Specifically, incorrect information related to weatherization measures affects the energy savings information reported by the Division. Significant data entry errors could cause the reported energy savings and average cost per project to be understated or overstated. For example, the data entry errors made by one subrecipient caused its fiscal year 2011 reported energy savings to be overstated by 126,233 kilowatt-hours.²

Additional training of subrecipient staff charged with reporting weatherization data would help improve its accuracy. In some instances, the differences between the database information and subrecipients' files were the result of the subrecipients not knowing which information the Division wanted reported. In addition, contractors and subrecipients have struggled with how to calculate and report draft reduction information accurately.

Recommendation

3. Provide additional training and monitoring of subrecipients' weatherization data entered into the Building Weatherization Report.

² According to the U.S. Department of Energy, the average household in the United States consumes about 1,000 kilowatt-hours in a month.

Appendix A

Fiscal Year 2010 ARRA Weatherization Projects By County

County	Number of Weatherization Projects Completed	Project Contractor Costs	Total Number of Household Members	Number of Elderly Helped	Number of Disabled Helped	Number of Children Helped
Carson City	38	\$ 185,939	75	25	13	5
Churchill	3	7,549	4	1	3	0
Clark	2,933	6,341,355	6,218	1,372	750	596
Douglas	22	96,076	57	7	9	3
Elko	23	89,288	45	1	11	20
Esmeralda	2	11,933	3	0	2	0
Eureka	1	8,514	1	1	0	0
Humboldt	4	30,339	9	2	3	3
Lander	21	85,740	38	9	5	15
Lincoln	0	0	0	0	0	0
Lyon	85	222,719	158	56	42	18
Mineral	7	52,924	10	5	2	2
Nye	26	136,755	47	24	15	2
Pershing	5	24,817	11	4	4	2
Storey	3	18,029	6	3	1	1
Washoe	501	1,502,781	1,205	168	148	402
White Pine	79	266,223	175	23	19	63
Totals	3,753	\$9,080,981	8,062	1,701	1,027	1,132

Source: Housing Division's Building Weatherization Report.

Appendix B

Fiscal Year 2011 ARRA Weatherization Projects By County

County	Number of Weatherization Projects Completed	Project Contractor Costs	Total Number of Household Members	Number of Elderly Helped	Number of Disabled Helped	Number of Children Helped
Carson City	38	\$ 206,815	76	29	16	6
Churchill	4	30,489	5	3	1	0
Clark	2,656	10,457,168	5,921	1,426	942	1,002
Douglas	49	141,313	107	17	13	4
Elko	268	875,301	599	68	46	262
Esmeralda	0	0	0	0	0	0
Eureka	1	6,946	10	1	0	0
Humboldt	1	8,200	2	2	0	0
Lander	0	0	0	0	0	0
Lincoln	3	12,973	6	1	1	2
Lyon	44	203,542	73	29	25	3
Mineral	6	42,337	8	5	5	0
Nye	21	134,488	45	15	10	0
Pershing	52	205,265	97	15	13	34
Storey	6	22,860	11	3	1	1
Washoe	615	1,976,681	1,533	175	163	538
White Pine	16	105,174	33	9	9	1
Totals	3,780	\$14,429,552	8,526	1,798	1,245	1,853

Source: Housing Division's Building Weatherization Report.

Appendix C

Audit Methodology

To gain an understanding of the Nevada Housing Division, we interviewed Division staff and reviewed state and federal laws. We also reviewed financial information, budgets, legislative committee minutes, and other information describing the activities of the Division. Furthermore, we documented and assessed the Division's internal controls related to the Low-Income Weatherization Assistance Program.

To determine the extent to which the Division's internal controls ensure compliance with ARRA weatherization program requirements, we judgmentally selected 100 weatherization projects completed in fiscal years 2010 and 2011. Our judgmental selection was based on the amount of ARRA funding allocated to each subrecipient, the cost of the project, and the percentage of work each contractor performed for a subrecipient. We selected projects from all six subrecipients and a minimum of five projects per subrecipient.

To test these 100 weatherization projects for compliance with program requirements and good practices for monitoring subrecipient activities, we reviewed documentation maintained in subrecipients' files. This included ensuring sufficient documentation to support the applicant's income was at or below 200 percent of the poverty level; energy assessments were done prior to installation of measures; contractor time to complete projects was reasonable; contractors' prices were accurate and matched approved prices; and subrecipients performed final inspections.

To determine that the contractor had installed the weatherization measures paid for, we performed field inspections of 40 homes. We judgmentally selected these homes based on the number of projects performed by each subrecipient and the number of

measures installed in a home. At each home, we visually inspected energy measures such as insulation of attics and crawl spaces, installation of windows and solar screens, and other work performed by contractors to verify quality work was performed and all measures billed were installed. The inspection also included talking with the homeowners about the weatherization process and reviewing utility statements when available.

To verify the accuracy of subrecipient reported project information for the 100 projects, we traced information recorded in the subrecipient's files to the Division's weatherization database. This included ensuring the subrecipient had correctly entered information related to the applicant's profile, the house type, and the weatherization work performed.

To determine the Division's accuracy in reporting performance information to the Legislature we verified the financial data in the Division's weatherization database and spreadsheets to the data in the Data Warehouse of Nevada. Furthermore, we agreed the number of units weatherized, listed in the Division's report to the Interim Finance Committee, to the Division's weatherization database.

Our audit work was conducted from March 2011 to December 2011. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Housing Division. On March 15, 2012, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D, which begins on page 21.

Contributors to this report included:

Todd Peterson
Deputy Legislative Auditor

Rocky Cooper, CPA
Audit Supervisor

Tom Tittle, CPA, CIA, CFE
Deputy Legislative Auditor

Appendix D

Response From the Housing Division



BRIAN SANDOVAL
Governor

STATE OF NEVADA
DEPARTMENT OF BUSINESS AND INDUSTRY
HOUSING DIVISION
1535 Old Hot Springs Road, Suite 50
Carson City, Nevada 89706
Phone (775) 687-2040 • Fax (775) 687-4040
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TERRY JOHNSON
Director

CHARLES L. HORSEY, III
Administrator

March 22, 2012

Paul V. Townsend, CPA
Legislative Auditor
Legislative Counsel Bureau
401 South Carson Street
Carson City, NV 89701-4747

Dear Mr. Townsend:

The Department of Business and Industry, Nevada Housing Division (NHD) has reviewed the audit recommendations developed by LCB which were provided to us on March 12, 2012. The NHD is in agreement with all recommendations and has included our responses below and will be developing and implementing a corrective action plan in the near future.

We appreciate the thoroughness and manner by which LCB staff completed their work. The recommendations will assist us in better serving all Nevadans receiving Weatherization Assistance. Below are NHD's responses to the specific Audit Recommendations:

Recommendation 1:
Provide additional training to subrecipients regarding the inspection of weatherized units.

Current Policies and Procedures are being reviewed and additional training and guidance will be provided to subrecipients' staff to ensure all inspection forms are properly completed and that work completed matches invoiced costs.

Recommendation 2:
Develop additional procedures for subrecipients that include gathering and documenting more information to substantiate applicants' household size and total income.

The current Subgrantee Administrative Manual is being reviewed with regard to income verification and household size. The NHD is reviewing the income verification procedures of other US Department of Energy Weatherization Assistance Program grantees as well as discussing this issue with other agencies within the state of Nevada that require income verification.

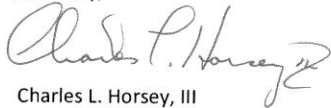
**Recommendation 3:
Provide additional training and monitoring of subrecipients' weatherization data entered into the Building Weatherization Report.**

The NHD will be providing one-on-one training with subrecipients' staff responsible for data entry into the Building Weatherization Report.

Also, as requested is the "Housing Division's Response to Audit Recommendations" form with the appropriate responses checked.

Please do not hesitate to call if you have any further questions regarding this response.

Sincerely,



Charles L. Horsey, III
Administrator

cc: Terry Johnson, Director

Housing Division's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Provide additional training to subrecipients regarding the inspection of weatherized units.....	<u> X </u>	<u> </u>
2. Develop additional procedures for subrecipients that include gathering and documenting more information to substantiate applicants' household size and total income.....	<u> X </u>	<u> </u>
3. Provide additional training and monitoring of subrecipients' weatherization data entered into the Building Weatherization Report	<u> X </u>	<u> </u>
 TOTALS	 <u> 3 </u>	 <u> 0 </u>