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The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This letter report presents the results of a review conducted by the California State Auditor's Office concerning the Department of Community Services and Development's (Community Services) progress in spending funds provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act) for the Weatherization Assistance for Low Income Persons (Weatherization) program before the Recovery Act grant expires. On February 17, 2009, the federal government enacted the Recovery Act, in part, to promote economic recovery and stabilize state and local government budgets. The U.S. Department of Energy (Energy) awarded \$185.8 million of Recovery Act funds to Community Services for its Weatherization program. In our July 2011 report, we concluded that Community Services faced challenges in its efforts to determine how to allocate the remaining Recovery Act funds to maximize production and weatherize enough homes to ensure that the grant funds are spent so that they do not revert by the March 31, 2012 deadline, while also ensuring that it meets its production goals under the annual weatherization grants that expire June 30, 2012.

This letter report concludes that if Energy approves a proposed nine-month extension of the March 31, 2012 deadline, Community Services should have ample time to spend the remaining Recovery Act funds. However, because the average cost for weatherizing a home has fallen significantly short of its estimates, as of December 31, 2011 Community Services must ensure that its service providers weatherize about 15,000 more homes to spend the remaining funds. Additionally, some service providers continue to struggle with meeting their weatherization goals and some service providers are not always following the Energy-approved protocols that ensure not only that the measures installed in homes are cost effective, but that they also maximize opportunities for saving energy.

Community Services Will Likely Receive an Extension to Spend the Remaining Recovery Act Funds, but It Must Weatherize More Homes Than It Had Originally Planned

Community Services is currently administering multiple Energy grants for the Weatherization program, including the \$185.8 million Recovery Act grant, three annual grants totaling \$23.8 million awarded during 2009, 2010, and 2011, and \$400,000 carried over from grants awarded during 2007 and 2008. The Recovery Act grant is scheduled to expire on March 31, 2012; however, Energy recently announced it intends to extend the expiration date to allow California and other states additional time to spend the remaining Recovery Act funds. To receive the Recovery Act grant extension, Community Services must submit a revised State Plan describing how it will administer the remaining funds, and how long it needs to

spend them. Community Services requested an additional nine months, or until December 31, 2012, to spend the Recovery Act funds and plans to submit its revised State Plan in February 2012. According to Community Services, Energy gave its preliminary approval on December 21, 2011 for the requested extension; however, final approval will not be granted until Energy reviews Community Services' revised State Plan. Energy announced on January 5, 2012 that it also intends to extend the expiration date of the three non-Recovery Act annual grants from June 30, 2012 to June 30, 2013, providing an additional year for Community Services to spend the remaining funds for all its annual grants.

Community Services retains for its administrative, training, and technical assistance costs approximately 15 percent of the grant funds it receives. However, according to Community Services' records, since April 30, 2011 it transferred \$8.5 million of those funds to service providers that expected to exceed their expenditure and production goals by the end of their respective contract terms, thereby increasing the total funding available for weatherization services. Community Services also issued 42 contracts totaling \$4 million in December 2011 for weatherization services under the 2011 annual weatherization grant. Table 1 provides a summary of the weatherization funds that Community Services is currently administering.

Table 1
Status of Weatherization Program Funding Allocated to Service Providers as of December 31, 2011
Dollars in Millions

| | WEATHERIZATION FUNDS | AWARDED | SPENT | UNSPENT FUNDS | EXPIRATION DATE |
|-----------------------|----------------------|----------------|----------------|---------------|-----------------|
| Recovery Act grant | \$166.4 | \$166.4 | \$124.9 | \$41.5 | March 31, 2012* |
| 2009–10 annual grant† | 16.6 | 16.6 | 12.7 | 3.9 | June 30, 2012‡ |
| 2011 annual grant | 4.0 | 4.0 | 0 | 4.0 | June 30, 2012‡ |
| Totals | \$187.0 | \$187.0 | \$137.6 | \$49.4 | |

Sources: U.S. Department of Energy's (Energy) grant award notices and data provided by the Department of Community Services and Development (Community Services).

* According to Community Services, Energy's Project Officer has given preliminary approval for an extension to December 31, 2012.

† Includes \$402,205 carryover of unspent funds from prior grant awards.

‡ Energy confirmed it intends to extend the expiration date to June 30, 2013.

In its most recent State Plan, revised in February 2010, for administering the Recovery Act funds, Community Services estimated it will weatherize 43,150 homes at an average cost of \$3,660 per home. In July 2011, we reported that as of April 30, 2011, service providers had spent an average of \$2,539 to weatherize each home. In recent months, service providers reported higher average costs for weatherizing a home; however, the overall average cost per unit of \$2,868 remains below the estimated cost in the State Plan. Similarly, the average cost of \$1,885 for weatherizing a home using the annual grant funds still falls short of the estimated \$2,500 average cost per home included in the State Plan. At its current average cost and production rate, Community Services could fully spend the remaining \$41.5 million of its Recovery Act funds by August 31, 2012 and the remaining \$7.9 million of its annual grant funds by October 31, 2012—well before the expected spending deadlines of December 31, 2012 and June 30, 2013, respectively. However, it must closely monitor its service providers to ensure they meet any revised production plans. Specifically, the total number of homes weatherized by all service providers as of December 31, 2011 has exceeded the number of homes estimated in the current State Plan. As shown in Table 2, assuming that the current average cost of weatherizing a home remains

steady at \$2,868 going forward, Community Services must ensure that its service providers weatherize approximately 14,500 additional homes to spend the remaining \$41.5 million of Recovery Act funds awarded to service providers before the extended deadline of December 31, 2012. In its revised State Plan, Community Services intends to update the estimated average cost per home and the projected number of homes it will weatherize.

Table 2
Number of Homes Service Providers Must Weatherize as of December 31, 2011 to Fully Spend Weatherization Grant Funds

| | WEATHERIZED UNITS COMPLETED | AVERAGE MONTHLY WEATHERIZED UNITS COMPLETED | TOTAL EXPENDITURES | ACTUAL AVERAGE COST | UNSPENT FUNDS | UNITS TO WEATHERIZE TO FULLY SPEND THE FUNDS |
|--------------------|--------------------------------|---|-----------------------|------------------------|---------------|--|
| Recovery Act grant | 43,530 | 1,958* | \$124,852,080 | \$2,868 | \$41,494,246 | 14,468 |
| Annual grants | 6,751 | 419† | 12,728,859 | 1,885 | 7,874,841 | 4,177 |

Sources: Production plans, production reports, and expenditure data provided by the Department of Community Services and Development.

* Calculated based on service providers' reported production over a 21-month period from April 2010 through December 2011. To provide a more realistic estimate of production capacity, we excluded January through March 2010 production from the average production calculation because few service providers had begun production.

† Calculated based on production activity over a 16-month period from September 2010 through December 2011. To provide a more realistic estimate of production capacity, we excluded activity prior to September 2010 because few service providers had begun production.

Some Service Providers Are Not Meeting Production Expectations

Community Services' need to increase production is compounded by the fact that some service providers continue to struggle to meet their existing weatherization goals. Community Services reported that it contracted with the Los Angeles Department of Water and Power (LADWP), the City of Oakland (Oakland), and the City and County of San Francisco (San Francisco) in June 2010 to serve three geographic regions. Although LADWP has made significant progress, the other two had weatherized few to no homes as of December 31, 2011. As we previously reported, all three service providers experienced delays starting their weatherization program due to the need to develop policies and procedures, obtain needed equipment, and hire staff to support the new programs. However, Oakland and San Francisco continue to struggle with additional challenges in meeting their weatherization goals.

Effective July 1, 2011, Energy's new policy required service providers to weatherize an entire multi-unit dwelling, such as an apartment building, and not just an individual apartment unit within the building as was permissible under Energy's previous policy. As a result of this new policy, the service providers were unable to weatherize some of the units as they had originally planned because these involved individual apartments rather than the entire building. Community Services challenged this policy, and in October 2011 Energy agreed with Community Services, which issued a revised policy allowing service providers to weatherize individual units within a multi-unit dwelling if weatherizing the whole building is not feasible. However, measures designed to be installed in the entire building, such as ceiling and wall insulation, windows, and any other "building envelope" measures, are not eligible for individual units. Therefore, the service providers are still limited in the amount of Recovery Act funding they can use when weatherizing individual units within a multi-unit dwelling.

In addition to the policy changes, Community Services reported that Energy's restrictions on how service providers leverage funds for multi-unit dwelling projects limit the amount of Weatherization program funds that can be used on a project. Service providers leverage funds on a weatherization project by using a combination of public and private funds, especially on large multi-family buildings where large investments are being considered for a single property. In its July 2010 guidance notice, Energy noted that many weatherization measures, such as furnace replacements, may not pass Energy's cost effectiveness tests; however, service providers can install the measures by using non-federal funding sources to offset the total costs and limit the use of Weatherization program funds to the most cost-effective portion of the measures. According to Community Services, some of the multi-unit dwelling projects are undergoing major rehabilitation, and Energy's restriction against using other federal funding sources limits the service providers' ability to install measures that do not meet the minimum cost-effectiveness standard.

LADWP has weatherized more homes as of December 31, 2011 than it had estimated. Further, it has spent substantial amounts of funds it was awarded by Community Services. However, Community Services reported that Energy's restrictions may result in both Oakland and San Francisco reevaluating their proposed portfolio of projects and returning funds to Community Services for reallocation to other subrecipients. Our review of the progress by these three service providers found the following:

- LADWP has made significant progress since our July 2011 report. Specifically, as of December 31, 2011 it had completed 1,270 units, more than the 1,241 units it had projected it would weatherize by that date. As of December 31, 2011, LADWP reported total expenditures of \$5.8 million, leaving \$2.7 million in unspent funds remaining on its contract. According to Community Services, LADWP estimates it will weatherize a total of 2,643 units before the end of the contract term. Community Services informed us that it will require LADWP to submit an updated expenditure and production plan, and intends to monitor LADWP's production on a semi-monthly basis.
- Oakland received its first award from Community Services in June 2010 for \$1.9 million. Although Oakland had not weatherized any homes as of June 2011, Community Services increased its Recovery Act award from \$1.9 million to \$4.0 million based on its plan to weatherize 1,234 units. However, as of December 31, 2011, Oakland reported that it had weatherized just 152 homes even though it had projected to have weatherized 509 homes by that date. Further, according to Community Services, Oakland's weatherization of 336 units is delayed due to changes in the weatherization policies regarding multi-unit dwelling projects and the leveraging restrictions described previously. Nevertheless, Community Services stated that Oakland intends to begin weatherizing the units in January or February of 2012. Community Services plans to monitor Oakland's production plans on a semi-monthly basis.
- San Francisco received its first award from Community Services in June 2010 for \$1.3 million. Although San Francisco had not weatherized any homes as of June 2011, Community Services increased its Recovery Act award from \$1.3 million to \$2.6 million based on its plan to weatherize 1,471 total units. As of December 31, 2011, San Francisco had not reported any completed units even though it had projected it would weatherize 344 units by that date. According to Community Services, San Francisco's weatherization program has been affected by the same challenges as Oakland; but San Francisco informed Community Services' staff that as of January 9, 2012, San Francisco had completed 300 units that it had not yet reported, had started construction on 267 units, and was in the process of performing energy audits and requesting bids for another 1,032 units. Community Services also plans to monitor San Francisco's production plan on a semi-monthly basis.

Some Service Providers Still Are Not Complying with the Energy-Approved Protocols, Resulting in Installation of Fewer Weatherization Measures

Community Services implemented a new Energy-approved weatherization protocol in February 2011; however, some service providers are not following this protocol, resulting in the installation of fewer weatherization measures and thus reducing the effectiveness of the program. The weatherization protocol identifies cost effective measures that have been approved by Energy, and allows service providers to determine which measures to install by either performing an energy audit using Energy-approved computer software, or to install measures based on a predetermined priority list that identifies cost effective measures in a similar dwelling type based on climate zone. A significant difference between the old and the new protocol is that the new protocol requires service providers to install all measures identified as a priority, such as ceiling, wall, and floor insulation, and programmable thermostats, unless installation is not feasible; whereas, the old protocol allowed the service provider to decide which measures to install. Although Community Services anticipated that some service providers would face difficulties complying with the requirements to install all priority measures, it intended to enforce compliance with the new protocol through its inspection process, which requires that any feasible priority measure not installed be documented as a performance issue on the inspection report. Service providers are required to install those measures during the inspection if possible, and if not, to install any such measures within 20 working days. Despite Community Services' efforts, some service providers are not following the protocol, and continue to install only minimal measures.

As we reported in July 2011, Community Services did not complete its training of weatherization workers on the new protocol until April 2011. Energy inspected four weatherized homes in April 2011, and found that in three of the four homes, service providers had installed only minimal measures, such as compact fluorescent lighting, water heater tank wrap and pipe insulation, and low-flow showerheads and faucet aerators. Energy also noted that weatherization crews were still struggling to implement the new protocol and recommended that Community Services provide additional targeted training. After inspecting recently weatherized homes during its quarterly monitoring visits during July 2011, then again during November 2011, Energy repeated its finding that service providers were not installing all approved measures as required under the protocol, and reported that some workers appeared unaware of the current priority list requirements. Energy reported that its findings call into question Community Services' enforcement of the approved protocol usage throughout the State's Weatherization program.

Energy also identified additional findings during its July and November 2011 visits. Energy took issue with the quality of the workmanship and stated that crews were not always performing work in accordance with the *Weatherization Installation Standards Manual* (manual) as required. For example, it found that for one home, the crew should have installed more sealing measures to reduce air leakage to the standards listed in the manual and noted that another half hour of work to install additional sealing measures would have reduced air leakage to a reasonable level. Energy also found that Community Services had not fully corrected a concern it reported in November 2010 after Community Services was unable to provide back-up documentation confirming all required training had been completed by Community Services' and service providers' staff. Community Services includes the list of required courses in its contracts with service providers, and requires service providers to maintain a training log listing all employees and subcontractors, and the date they completed each required training course. Although Community Services verifies during its annual monitoring visits whether employees and subcontractors complete the required training, Energy found that training logs were incomplete and did not agree with Community Services' most

recent subrecipient monitoring reports. Energy reported that Community Services' training consultant is developing an online training database to track training compliance; however, as of November 2011, the system was still in the development phase.

In its response letter, Community Services agreed with Energy's findings. For example, it stated that it will work with the service providers where appropriate to provide additional training and will direct service providers to subcontract any feasible work in the future until training has been provided. However, it did not provide a plan for ensuring that appropriate training is provided to workers. Community Services informed us that it is currently working with its training consultant to streamline the priority list to be more "user-friendly" for service providers and plans to host a webinar in January or February 2012 to clarify understanding and application of the use of the priority list. Despite the progress toward meeting its production goals, Community Services continues to face challenges ensuring its service providers are adequately trained and are complying with required standards and protocols. In addition to the training webinar Community Services plans to host, it should also identify service providers who are not following the weatherization standards and required protocols, and provide targeted training.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code. We limited our review to those areas specified in the letter report.

Respectfully submitted,



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For questions regarding the content of this letter, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.