
Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 005

Finding: The Department of Commerce, Local Government and Infrastructure Division, does not have controls to ensure it complies with reporting requirements for the Community Development Block Grant program.

Resolution: The Department concurs with the finding. This occurred because instructions for the Section 3 report from the federal granting agency, the Department of Housing and Urban Development (HUD), were not clear. In June 2010, HUD provided updated instructions clarifying that only the Community Development Program (CDP) portion of funding awarded to Section 3 businesses should be reported. As one of the CDP federal grantee programs, the Community Development Block Grant (CDBG) program Section 3 reporting should have been separated as directed.

The Department implemented the following actions to ensure the accuracy of the 2010 Section 3 report due on March 31, 2011, and all future reports:

1. The Department is monitoring grant recipients' contractor/subcontractor semiannual reports to ensure only the CDBG portion of funds awarded to Section 3 businesses is reported. The contractor/subcontractor reports are submitted to HUD on a semiannual basis and are compiled and reported on the Section 3 report. Contractor/subcontractor reports that include other funding will be corrected to include only the CDBG portion of funding before submitting to HUD and before being included in the annual Section 3 report.
2. The Department is providing technical assistance to current grant recipients to ensure they are reporting only the CDBG portion of awards to Section 3 businesses hiring and/or training Section 3 persons.
3. The Department updated the 2011 CDBG Management Handbook to provide clear instructions for completing the contractor/subcontractor reports, documenting hiring and/or training of Section 3 persons. Department staff provided training to the 2011 CDBG grant recipients at CDBG Management Handbook workshops on the reporting requirements in May and June 2011.

On an ongoing basis, Department staff responsible for compiling the data will review it for completeness and accuracy and work with grant recipients to resolve any discrepancies. Department management will review and approve Section 3 reports before submittal to HUD and provide an explanation when any outcomes of hiring and/or training Section 3 persons are not documented in the annual Performance Evaluation Report.

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Audit Report: 2010 F

Finding Number: 016

Finding: The Energy Office of the Department of Commerce does not have controls to ensure it complies with Davis-Bacon (prevailing wage) requirements.

Resolution: The Department concurs with the finding. When the original grants and loans were awarded, the Energy Office had many discussions with the U.S. Department of Energy (DOE) about the Davis-Bacon requirements. Preliminary guidance from DOE indicated project costs could be split and Davis-Bacon would not be applied if construction funding was not included in the American Recovery and Reinvestment Act award. Some of the projects undertaken are quite large and the federal contribution is a small portion of total funding. DOE reviewed each grant or loan and made determinations on which tasks required Davis-Bacon compliance. Later guidance from DOE indicated that Davis-Bacon would apply whenever construction was part of the project, even when construction was not funded by federal dollars.

The specific incident cited in the finding occurred because of a misunderstanding between the Energy Office program manager and the grant recipient regarding what constituted the start of construction. The program manager notified the grant recipient as early as November 2009 that Davis-Bacon requirements applied and that certified payrolls for construction projects must be collected.

On September 13, 2010, the Department's Contracts Administration Unit (CAU) staff reviewed the invoices in question for Davis-Bacon compliance. Prior to approval of the invoice noted in the incident, the program manager asked if construction had begun. The grant recipient indicated that construction began after a ground-breaking event in July 2009. During the review, staff discovered the invoice for work done through June 30, 2010, included site preparation work that had been reimbursed without monitoring for Davis-Bacon compliance. The Department immediately requested certified payrolls and found a \$1.41 underpayment. This took place before the next reimbursement payment was made and the underpayment was resolved on January 1, 2011.

To ensure greater control over compliance with the Davis-Bacon requirements, the Department implemented changes to its invoice review and payment procedures. The function of invoice review and verification was transferred to CAU. The Department's CAU staff have years of experience in processing requests for reimbursement that include Davis-Bacon requirements. Experienced CAU staff members now review payment requests, collect and verify certified weekly payroll information, and process the payments.

In addition, the Energy Office is now utilizing agencywide expertise including consultation with the Community Services and Housing Division staff members who regularly work with Davis-Bacon requirements. In this way, the Department can ensure a consistent understanding of Davis-Bacon requirements throughout the agency and ensure ongoing compliance.

State of Washington

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Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 017

Finding: The Energy Office at the Department of Commerce does not have controls to ensure it complies with reporting requirements for the State Energy Program.

Resolution: The Department concurs with the finding. The Department's Energy Office submits quarterly financial reports to the U.S. Department of Energy (DOE) electronic system with data received from Department's accounting staff.

Communications between program staff and accounting staff were not sufficient at that time to ensure the accounting staff was aware of a new project number for fiscal year 2011 where expenditures were accumulated. As a result, accounting staff did not include charges accumulated against the new project number in the July to September 2009 quarterly report to DOE. In addition, the report was not adequately verified by the State Energy Office to make sure all expenditures were accurately reflected. As a result, \$45,279 was not reported.

The expenditures were included in the October-December 2009 quarterly report. In 2009, no mechanism existed to revise a report once it had been submitted. Corrections had to be made in the subsequent report. With the Energy Office's new reporting program, future corrections can be made to the impacted quarter with approval from DOE.

The Department assessed its internal controls and implemented measures to ensure compliance with reporting requirements through clearly defined expectations and access to the appropriate information. Department accounting staff updated the federal reporting procedures in September 2010, adding steps to ensure all quarterly federal expenditure activity is reported. These procedures have been followed since the procedure update.

Additional controls implemented include:

- Comparing federal expenditures by project code with federal report project listing.
- Supervisor review of all financial status reports or federal financial reports prior to review by Energy Office staff.
- Communication and review with Energy Office staff prior to submitting reports.

The Department further plans to implement periodic monitoring by personnel not performing the tasks to ensure the above activities are taking place.

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Department of Commerce (COM)

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Finding Number: 018

Finding: The Energy Office at the Department of Commerce did not adequately monitor grantees and loan recipients and paid for unallowable costs under the State Energy Program.

Resolution: The Department concurs with the finding. The Department authorized and paid a grant recipient's invoice for undocumented expenses. This occurred due to an inexperienced program staff member's mistake in the invoice verification and approval process.

To ensure greater control over invoice monitoring, the Department has increased desk top monitoring. On September 1, 2010, monitoring of invoice payments on American Recovery and Reinvestment Act energy contracts was transferred to the Department's Contracts Administration Unit (CAU). CAU has experienced staff dedicated to reviewing all grant recipient requests for payments and the supporting documentation before payments are approved.

On September 20, 2010, CAU staff reviewed the grant recipient's contract file and identified \$13,691 in questionable costs. Department staff contacted the grant recipient and requested clarification of costs and additional supporting documentation. As a result, CAU determined \$6,894 was supported by the documentation and therefore allowable. CAU also determined that the remaining \$6,797 was unallowable. The grant recipient was notified that these costs were unallowable and the amount was deducted from the next invoice. The Department has received satisfactory documentation from this grant recipient for all other invoices to date. In addition, the Department is working with U.S. Department of Energy to satisfy any questions regarding the questioned costs.

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Department of Commerce (COM)

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Finding Number: 019

Finding: The Department of Commerce, Community Services and Housing Division, does not have controls to ensure it complies with subrecipient monitoring requirements for the Weatherization Assistance for Low-Income Persons program.

Resolution: The Department concurs with the finding and has taken corrective action. After learning of the oversight, the Department checked the national Central Contractor Registration (CCR) system, completing and documenting the check on January 10, 2011. The Department contacted three contractors to correct issues of noncompliance.

In the future, an assigned staff member will review the CCR system at the end of each quarter (March, June, September, December) for each contractor, noting any comments regarding missing information and documenting the information and date in a spreadsheet.

If the CCR indicates that information is missing or outdated for any contractor, the staff member assigned as liaison with the contractor will contact the contractor, requesting they go to the CCR system to review and update the entry within one week of notification. The assigned staff member will perform a follow-up check on the CCR system to verify that the contractor has updated or corrected their information and note the date of contact and correction in the CCR tracking spreadsheet. This was implemented beginning March 31, 2011.

The Department will include the CCR check and documentation in contracting action items or in the steps taken by the Housing Improvement and Preservation unit when creating new contracts or grants and amending existing contracts or grants.

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Audit Report: 2010 F

Finding Number: 020

Finding: The Department of Commerce, Community Services and Housing Division, does not have controls to ensure it complies with suspension and debarment requirements for the Weatherization Assistance for Low-Income Persons program.

Resolution: The Department concurs with the finding. In order to ensure compliance, the Department designated one position, the unit contracts manager, to be responsible for ensuring that all appropriate terms are addressed in contracts, including suspension and debarment, before moving any contract forward for signatures. This is part of the contract compliance checklist. The contracts manager or other designee will check the Excluded Parties List System (EPLS) when entering into a contractual agreement with a new vendor, including documenting the EPLS confirmation of vendor standing by making a print-screen and placing it in the contract file. The contracts manager will train unit members and new employees on contracting requirements and procedures. These measures were in place and operational on March 1, 2011.

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Audit Report: 2010 F

Finding Number: 021

Finding: The Department of Commerce, Community Services and Housing Division, did not comply with subrecipient monitoring requirements for the Weatherization Assistance for Low-Income Persons program.

Resolution: The Department concurs with the finding and has taken steps to correct and improve monitoring and inspection protocol, checklists, consistency and training. The failure to complete comprehensive monitoring in 2009 was a reflection of a number of events, including preparing to receive a tenfold increase in weatherization funding, delays in hiring and training new staff for technical positions due to a hiring freeze, the collapse of a community action agency, and providing direct weatherization service for the first time to meet state American Recovery and Reinvestment Act weatherization production goals. While these are legitimate reasons that disrupted local agency monitoring plans, the Department acknowledges that program monitoring requirements were not fully satisfied.

The Department has always worked to refine and improve monitoring and inspection protocol. Historically, Washington has been among a handful of states asked to share and present its monitoring and inspection policies and tools as best practices. In April 2010, the Department implemented the first PDF-based monitoring tool and database. It was revised in July 2010. After testing and reviewing the results, Department staff determined the tool was not sufficient for comprehensive program monitoring. In October 2010, the Department implemented a revised performance assessment tool, as part of a completely revised monitoring assessment packet, which included fiscal review questions and a new monitoring report template.

The lead weatherization monitoring team met in January 2011 and outlined additional revisions to the program assessment tool that consolidated fiscal and administrative monitoring into five key areas. An assigned lead weatherization monitor is working closely with the fiscal monitor to redesign the Weatherization Program fiscal/administrative monitoring checklist. It will be more effective, comprehensive, and coordinated with other fiscal monitoring activities. Two additional sections of the tool were revised to evaluate the technical and program management systems of a local agency.

For July-December 2010, 15 of the 25 weatherization delivery agencies received comprehensive monitoring, including completion of the fiscal tool checklist. By July 2011, the weatherization monitoring fiscal tool was completed for the remaining 10 agencies.

Over the course of the audit, the Department responded seriously and quickly to observations and concerns expressed by the auditors. The Department acted immediately in October 2010, for example, when it learned that the file checklist was not applied consistently. Questions were changed to eliminate simple "yes" or "no" responses, monitors were coached and questions rewritten to probe deeper and to ask for documentation and verification. Additional weatherization monitor training was provided during regularly scheduled lead monitor meetings throughout the first quarter of 2011. These trainings focused on fiscal/administrative monitoring, proper use of revised

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evaluation tools, and the application of U.S. Department of Energy (DOE) monitoring guidelines.

The Department convened statewide refresher training in May 2011 for all inspectors, including local agencies and Department personnel. The purpose was to reaffirm inspection expectations, consistency and accountability for immediate implementation and long-term application.

The findings attributed to King County Housing Authority (KCHA) for serving clients after their income eligibility period expired were addressed immediately. A letter was issued to KCHA to formally disallow costs totaling \$38,694 and seek a refund unless supporting documentation can be provided to verify eligibility.

The Department issued notification on January 13, 2011, to all local agency executive directors, chief financial officers and program managers regarding the observations and concerns received from the state auditor, DOE and DOE's Inspector General. The Department encouraged all parties to compare current practices to concerns registered and make immediate corrections if warranted.

The Department updated its inspection checklist to include checking income eligibility documentation, rather than limiting the review to only the in-office monitoring. Training on how to review eligibility and properly document the results was provided to all lead monitors and inspectors in February 2011. The Department is determining how to manage this element for large multi-family buildings when there isn't individual income verification documented.

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Finding Number: 027

Finding: The Department of Commerce does not ensure the Temporary Assistance for Needy Families funding it provides to subrecipients is reported and audited in accordance with federal regulations.

Resolution: The Department partially concurs with the finding. The Department agrees that not all subrecipients submitted audit reports as required and it did not catch the oversight. Terms and conditions of contracts with the subrecipients identify the requirement that organizations receiving in excess of \$500,000 in federal funds must undergo a federal audit. Through the monthly invoice verification process, the required documentation and on-site monitoring conducted for each subrecipient, the Department is satisfied that program funds expended during this period were appropriate and correct

In the future, based on direction from the funding source, the Department will consider the WorkFirst contractors as vendors, thus negating the requirements for federal audit reports.

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Finding Number: 029

Finding: The Department of Commerce, Community Services and Housing Division, did not comply with subrecipient monitoring requirements for the Community Services Block Grant program.

Resolution: The Department concurs with the finding. When a staff member assumed program management responsibilities for the Community Services Block Grant in July 2009, she noted that two subrecipients had not received on-site monitoring within the required three-year period. In the summer and fall of 2009, the upcoming monitoring schedule was updated, but since the schedule was already set for 2009, the two subrecipients were not added to the schedule. With only two employees monitoring approximately 10 subrecipients per year, and the addition of American Recovery and Reinvestment Act (ARRA) funding awards in the spring of 2009, it was difficult to add the two subrecipients to the monitoring schedule for 2009. The entire grant process – from application to award, from tracking expenditures to assessing risk, from additional fiscal monitoring to state and federal reporting – had to be ramped up under significantly constrained staffing conditions. Monitoring visits are typically scheduled March or April through October to avoid hazardous driving conditions in the winter and because the annual application and reporting processes consume most of staff's time from October through March.

Both subrecipients were contacted on March 11, 2010, when the 2010 monitoring schedule was being prepared for that year. Monitor dates were arranged for May and November 2010. Monitoring visits were completed as scheduled.

At present, the monitoring schedule has been adjusted so that 10 subrecipients will be monitored on-site each year, to ensure that all 30 subrecipients are monitored on-site every three years. Any additional on-site monitor visits triggered by a risk assessment, request by the subrecipient, or poor performance will be added to the normal three-year rotation schedule.

In addition to on-site monitoring, other monitoring activities are performed by Department staff that yield information about the performance of the subrecipients:

- The annual application process includes review of their annual plan, community needs assessment, strategic planning documents, and budget.
- Monthly review and processing of requests for reimbursement yields a picture of their spend-down of the grant and adherence to expenditures based on their stated plan.
- Periodic phone calls include technical assistance.
- Desk monitoring includes review of fiscal documents for ARRA grants mailed by grant subrecipients.

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Agency: 103

Audit Report: 2010 F

Finding Number: 030

Finding: The Department of Commerce, Community Services and Housing Division, did not comply with period of availability requirements for the Community Services Block Grant program.

Resolution: The Department concurs with the finding. The Department did not properly review costs transferred from one grant year to another grant year to ensure costs were within the proper period of availability. Fiscal staff did not clarify nor consult with program staff when program staff requested cost transfers between grant years. Fiscal staff reviewing the work of newly hired staff did not properly verify backup documentation for the transfer. As a result, \$55,593 transferred was not properly identified within the period of availability.

In January 2011, fiscal and program staff reviewed and corrected the original \$55,593 costs transferred between grant years. Appropriate costs within the period of availability were identified and transferred.

The Department concurs with the auditor's recommendation that fiscal staff consult with program staff when transferring costs between grant years. The Department has assessed its internal controls and implemented measures to ensure proper review of cost transfers through clearly defined expectations and responsibilities. Program and fiscal staff have updated the transfer/correction request form to include identification of specific items to transfer and fiscal staff provided training to program staff. Fiscal has also reiterated document review and approval expectations with supervisors and lead workers.

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