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Audit Report Number 2011-HA-0004

TO: Shelley Poticha, Director, Office of Sustainable Housing and Communities, Y

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FROM: Sandra G. Elion, Director, Headquarters Audit Division, GAH

SUBJECT: HUD Could Not Identify Whether Its Properties Had Been Included in the Recovery Act Weatherization Assistance Program

HIGHLIGHTS

What We Audited and Why

We audited the Office of Sustainable Housing and Communities' implementation of the U.S. Department of Housing and Urban Development's (HUD) partnership with the U.S. Department of Energy (DOE) to coordinate Federal weatherization efforts nationwide. This audit was part of our fiscal year 2010 audit plan. Our objective was to determine whether HUD multifamily properties were eligible to receive American Recovery and Reinvestment Act funding under DOE's Weatherization Assistance Program.

What We Found

We could not answer our objective because HUD did not have records on which properties had been weatherized. Although HUD entered into a memorandum of understanding with DOE to improve energy efficiency in its qualified housing properties, HUD did not require DOE to provide data on which HUD qualified housing properties had been selected to be weatherized. Specifically, HUD did

not require DOE to report which HUD properties participated in the weatherization program. This condition occurred because HUD did not define or communicate its expectation for measuring whether its properties had been weatherized. As a result, HUD could not identify improved properties or cost savings achieved through reduced energy costs.

What We Recommend

We recommend that the Director of the Office of Sustainable Housing and Communities request reports from DOE that identify which HUD qualified housing properties have been weatherized.

Auditee's Response

We provided the discussion draft to the Office of Sustainable Housing and Communities for comment on September 20, 2011. We received written comments from the Office on September 26, 2011, that concurred with our finding and recommendation. The completed text of the Office's response, along with our evaluation of that response, can be found in appendix A of this report.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding 1: HUD Could Not Identify Whether Its Properties Had Been Weatherized	6
Scope and Methodology	9
Internal Controls	10
Appendix	
A. Auditee Comments and OIG's Evaluation	12

BACKGROUND AND OBJECTIVE

Historically, the U.S. Department of Energy's (DOE) Weatherization Assistance Program mainly served single-family properties because of the cumbersome income verification requirements in applying for weatherization assistance and the complexities of completing the weatherization of multifamily properties. It was less tedious for local weatherization agencies providing weatherization services to verify the income of a single tenant in a single property and carry out the weatherization of that property in the 6-month timeframe established by DOE. On the other hand, to qualify a multifamily property for weatherization assistance, the income of each tenant in each unit of a building had to be verified to ensure that at least two-thirds of the occupants in the building met DOE's income requirements. The local weatherization agencies then had to ensure that the contractors engaged to provide these services were capable of completing the weatherization of all units in the building in a timely manner.

Three events in early 2009 increased the opportunity for more of the U.S. Department of Housing and Urban Development's (HUD) multifamily (qualified housing¹) properties to be weatherized:

- On February 17, 2009, Congress passed the American Recovery and Reinvestment Act, which provided \$16 billion to DOE and HUD that could be used to improve the energy efficiency of existing homes and rental units as well as other activities. Of the \$16 billion, DOE received \$5 billion for the Weatherization Assistance Program.
- On February 27, 2009, HUD and DOE established a partnership to “streamline and better coordinate federal weatherization efforts” to make it easier for families to weatherize their homes. This collaboration was also intended “to help catalyze a home performance/energy retrofit industry nationwide.”
- On May 6, 2009, the Secretaries of HUD and DOE signed a memorandum of understanding to formalize the partnership relative to the use of the Weatherization Assistance Program funds for HUD qualified housing.

This memorandum became the basis for defining and publicizing requirements and decisions that HUD and DOE reached on eligibility requirements applicable to multiunit buildings. The memorandum was also intended to streamline the weatherization income eligibility verification process for residents in approximately 1.1 million public housing units, another 1.2 million privately owned federally assisted units, and nearly 950,000 units financed with low-income housing tax credit. In January 2010, DOE published in the Federal Register a final rule that addressed (1) income requirements, (2) protections for rent increases, and (3) no undue or excessive enhancements to the value of the dwelling units. Regarding income requirements and rent increases, DOE allowed HUD to identify which of its qualified housing properties met

¹ For this report, qualified housing includes HUD's public housing and assisted housing projects that receive project-based Section 8 assistance, Supportive Housing for the Elderly, and Supportive Housing for Persons with Disabilities.

DOE's income eligibility and protection from rent increase requirements. The properties included on HUD's lists did not need further evaluation or verification of these factors when being considered for weatherization services.

As of May 17, 2011, HUD had provided DOE lists of its qualified housing for DOE's Weatherization Assistance Program funded by the Recovery Act. These lists included 41,310 public housing buildings, 10,814 multifamily housing properties, and 9 low-income housing tax credit properties.

Our objective was to determine whether HUD multifamily properties were eligible to receive Recovery Act funding under DOE's Weatherization Assistance Program.

RESULTS OF AUDIT

Finding 1: HUD Could Not Identify Whether Its Properties Had Been Weatherized

Although HUD had entered into a memorandum of understanding with DOE to improve energy efficiency in its qualified housing properties, HUD did not require DOE to provide data on which HUD qualified housing properties had been selected to be weatherized. Specifically, HUD did not require DOE to report which HUD properties participated in the weatherization program. This condition occurred because HUD did not define or communicate its expectation for measuring whether its properties had been weatherized. As a result, HUD could not identify improved properties or cost savings achieved through reduced energy costs.

HUD Dedicated Resources to Fulfill the Memorandum of Understanding

In fulfillment of the memorandum of understanding, HUD dedicated personnel to assess income eligibility, match tenants to the units of the buildings in HUD properties, and compile lists of HUD qualified housing properties that consisted of 52,133 income-eligible properties and buildings. HUD carried out its responsibilities under the memorandum through the Offices of Sustainable Housing and Communities, Policy Development and Research, Public and Indian Housing, and Multifamily Housing.

To coordinate the DOE weatherization partnership, HUD assembled two working groups composed of energy experts, managers, and program staff from the Offices of Sustainable Housing and Communities, Policy Development and Research, Public and Indian Housing, and Multifamily Housing. The initial working group convened from January 2009 until January 2010 and met about 10 to 15 times. The second group lasted about 8 months, from January until August 2010, and the members met about 12 times. The working groups met on an “as-needed basis” and addressed matters ranging from reducing the barrier to income verification and increasing HUD’s multifamily properties’ participation to outreach activities with stakeholders to implement the final rule for DOE’s weatherization program.

The coordination of the HUD-DOE partnership consumed HUD resources internally and externally to assemble working groups, resolve issues, coordinate outreach, and educate stakeholders. Despite this undertaking, HUD could not determine if it derived any direct benefits by entering into this memorandum with

DOE. At a minimum, HUD should have required DOE to identify its properties that had been weatherized.

HUD Did Not Request Reports on Weatherized Properties

As part of HUD's fiscal year 2009 annual performance plan, strategic goal B, to promote decent affordable housing, HUD planned to reduce energy costs in HUD-financed, -assisted, and -insured housing. That plan reported that HUD

annually spends more than \$5 billion on energy, primarily through utility allowance to renters, housing assistance payments to private building owners, and operating grants to public housing agencies. Energy efficiency improvements could yield significant cost savings; a 5 percent reduction could save \$2 billion over the next 10 years.

Although HUD had as a goal the reduction of energy costs, it did not request from DOE reports that identified which properties had been weatherized. In September 2009, shortly after signing the memorandum of understanding with HUD, DOE issued Weatherization Program Notice 10-13A, entitled "ARRA [Recovery Act] Reporting Requirements: OMB [Office of Management and Budget] Quarterly and DOE Monthly Reporting Requirements Under the American Recovery and Reinvestment Act of 2009 for the Weatherization Assistance Program." The purpose of Notice 10-13A was to provide guidance to weatherization program grantees on OMB's quarterly reporting and DOE's monthly reporting requirements related to Recovery Act funds.

In accordance with Notice 10-13A, DOE must provide a means to effectively monitor and report the return on investment in terms of jobs created and homes weatherized. Recovery Act grantees are required to report quarterly and monthly weatherization data to DOE. Specifically, the quarterly reports require grantees to report programmatic activity, which includes the outlay of funds, units weatherized and re-weatherized, demographic information related to housing type, and occupancy required. This information could be beneficial to HUD if DOE amended this reporting requirement to include a field that specifically identified whether the weatherized units were HUD qualified housing.

According to the Office of Sustainable Housing and Communities coordinator for energy policy, HUD would like to and intends to find a way to report on HUD properties that had been weatherized through DOE's weatherization program. Although DOE does not collect that information as a part of its regular reporting system, HUD continues discussions with DOE to find a solution. Also, a representative from HUD's Office of General Counsel said, "it would have been

great to be able to say that the number of multifamily participation [in the DOE weatherization program] has increased.”

Neither HUD nor DOE could provide us with reports that identified how many and which HUD qualified housing had been weatherized. Such reports would have allowed HUD to estimate its annual cost savings through the reduction of energy costs as a result of the increased multifamily participation in DOE’s weatherization program.

During our review, Office of Sustainable Housing and Communities staff informed us that DOE had contracted with the Oak Ridge National Laboratory to conduct a study of its weatherization program. This study was expected to identify the number of HUD qualified housing properties that had been weatherized. The preliminary report is scheduled to be issued during the spring of 2012 and the final report in 2013.

Conclusion

While the barriers to income verification may have been lowered as a result of the HUD-DOE partnership, actual participation in the weatherization program could not be determined. Increased participation in this program by HUD’s qualified housing properties would have directly contributed to HUD’s goal to reduce energy costs and represented a return on investment for properties weatherized. If HUD had received detailed reports on which properties had been weatherized, it would have been able to determine how many of its properties had been weatherized and estimate the resulting cost savings.

Recommendation

We recommend that the Director of the Office of Sustainable Housing and Communities

- 1A. Request reports from DOE that identify which HUD qualified housing properties have been weatherized.

SCOPE AND METHODOLOGY

We performed our audit work at HUD headquarters, Washington, DC, between May and August 2011. Our audit generally covered the period February 2009 through May 2011.

To accomplish our objective, we

- Reviewed applicable laws, regulations, and a memorandum of understanding between HUD and DOE.
- Reviewed HUD's qualified housing lists that HUD provided to DOE for the weatherization program partnership.
- Conducted interviews with HUD personnel and DOE Weatherization Assistance Program staff.

For this review, we did not assess the computer-processed data because the data used in the report were not essential to our results.

We conducted the 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with applicable laws and regulations – Policies and procedures that management has in place to ensure that resource use is consistent with laws and regulations

We assessed the relevant controls identified above.

Internal Control Deficiency

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal

controls was not designed to provide assurance on the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Office of Sustainable Housing and Communities' internal controls for managing its programs.

Based on our review, we believe the following item is an internal control deficiency:

- HUD could not identify whether its properties had been weatherized (finding 1).

APPENDIX

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Reference to OIG Evaluation

Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410

DATE: September 26, 2011

MEMORANDUM FOR: Sandra G. Elion, Director, Headquarters Audit Division, GAH

FROM: Shelley Poticha, Director, Office of Sustainable Housing and Communities *SP*

SUBJECT: HUD Draft Audit Report, "HUD Could Not Identify Whether its Properties had been Included in the Recovery Act Weatherization Assistance Program"

Thank you for the opportunity to respond to the subject draft audit report. The following comments are offered as a result of our review of the draft.

Auditor's Conclusion:

While the barriers to income verification may have been lowered as a result of the HUD-DOE partnership, actual participation in the weatherization program could not be determined. Increased participation in this program by HUD's qualified properties would have directly contributed to HUD's goal to reduce energy costs, and represented a return on investment for properties weatherized. If HUD had received detailed reports on which properties had been weatherized, it would have been able to determine how many of its properties had been weatherized and estimate the resulting cost savings.

Response:

We agree with this finding; we note, however, that we expect to receive very useful data from the Oak Ridge National Laboratory national "ARRA-Period Evaluation" that is referenced only tangentially on p. 8 of the draft report. Oak Ridge is requesting detailed information on HUD-assisted properties from state and local weatherization agencies for Program Year 2010, as discussed further below. At the same time, regular and contemporaneous reporting, if not unduly burdensome to local providers and state weatherization agencies, would enable HUD to track this data on an on-going basis in real time.

Auditor's Recommendation:

We recommend that the Director of the Office of Sustainable Housing and Communities

1A. Request reports from DOE that identify which HUD qualified properties have been weatherized.

Comment 1

Comment 2

Response

We agree with this recommendation, if these reports can be secured within the requirements of the Paperwork Reduction Act. It is also important to note that since the weatherization program is a DOE program, any amendments to the program's reporting requirements are solely DOE's responsibility. HUD cannot "require" DOE to alter its reporting requirements, as implied on page 1 of the report. We expect to submit a request to DOE within ten (10) days.

Additional Comments

1. The HUD-DOE weatherization partnership is an important collaboration between our agencies to address the barriers that previously existed to lower utility bills for low-income renters. We believe it has contributed to the growing share of multifamily housing that has been weatherized with Recovery Act funds, relative to previous years. Results so far are encouraging: According to DOE reports, summarized below, multifamily housing as a share of all units assisted now constitutes more than 20 percent of all ARRA-funded weatherization. Through March of this year, DOE reports 82,409 multifamily units assisted, or 20.2% of the total, an increase from the historical rate of 17.9% (2001-2006).

Multifamily Weatherization – National			
	Total	Multifamily	MF Share
Total 2001-2006	592,757	107,127	17.9%
ARRA Thru 3/31/11	408,713	82,409	20.2%

Excluding New York, which accounts for almost one fifth (17.5%) of all ARRA-funded multifamily units nationwide, the share of weatherized units actually increased from 12.6% from 2001-2006 to 17.5%, a 35 percent increase.

Multifamily Weatherization -Without New York			
Year	Total	Multifamily	MF Share
Total 2001-2006	517,486	65,075	12.6%
ARRA Thru 3/31/11	388,652	67,918	17.5%

2. As recommended by the OIG, we will continue to work with DOE to secure data on HUD-assisted properties that have received WAP funding. This has two components.
 - *Oak Ridge National Evaluation.* The OIG did not sufficiently emphasize the data that HUD already has requested from DOE through the national evaluation that is being conducted by Oak Ridge National Laboratory. This is a detailed survey that will yield important results on the HUD-DOE partnership. Oak Ridge will be conducting two surveys: one for states (S1 – states, Questions 33-38) and another for local programs (S2 – local programs, Questions 45-55), and in each case will be asking agencies to report on the number of HUD-assisted and public housing units that were weatherized in Program Year 2010. Additional questions on barriers to multifamily weatherization will be asked. Preliminary results are expected to be available in late spring, 2012, and will provide timely evidence of the number of

HUD-assisted properties that have received assistance. (See http://weatherization.ornl.gov/evaluation_period.shtml and Attachment A).

- *Additional Reporting.* We will also request reports from DOE that identify which qualified properties have been weatherized, to the extent that this can be accomplished within Paperwork Reduction Act requirements. In 2010 HUD discussed with DOE the potential for multifamily data reporting; we were advised at that time that DOE does not require state agencies to categorize multifamily projects into separate categories, such as public housing or HUD-assisted. Requesting state agencies to collect information beyond current requirements would have required DOE to obtain OMB approval and undertake a public notice process before additional data collection could be accomplished.

We appreciate the opportunity to review and discuss the draft report. While significant work remains to be done, HUD's partnership with DOE represents an important first step in aligning the two agencies' regulatory requirements for lowering energy costs in low-income multifamily housing. Please feel free to contact me if you need further information.

Attachment A - National Evaluation, Oak Ridge National Laboratory

S1: ALL STATES PROGRAM INFORMATION SURVEY

33. Does your state allow the weatherization of large low-income multi-family buildings?

a. yes

b. no

If not, why not? _____

34. What are the barriers to weatherizing large low-income multi-family buildings in your state? (check all that apply)

a. lack of trained auditors

b. lack of trained crew

c. too expensive

d. building owners are uncooperative

e. energy savings are not high enough

f. unclear guidance from DOE or other agencies on owner contributions

g. other _____

35. Does your state allow the weatherization of public housing, that is, housing owned by a public housing authority?

a. Yes

b. No

If not, why not? _____

36. Does your state allow the weatherization of HUD assisted housing?

a. Yes

b. No

If not, why not? _____

37. How many units of each type were weatherized in your state in PY 2010:

Type of Housing	Large Multi-family (Not Public Housing or HUD Assisted)	Public Housing Multi-family	HUD Assisted Multi-family

38. Are there any DOE rules that could be changed to make it easier to weatherize large low-income multi-family buildings?

a. Yes. Describe: _____

b. No

S2: ALL AGENCIES PROGRAM INFORMATION SURVEY

45. Does your state allow the weatherization of large low-income multi-family buildings?
 a. yes
 b. no (go to Q 40)
 If not, why not? _____
46. Does your agency weatherize large low-income multi-family buildings?
 a. No
 b. Yes
47. What are the barriers to weatherizing large low-income multi-family buildings? (check all that apply)
 a. lack of trained auditors
 b. lack of trained crew
 c. too expensive
 d. building owners are uncooperative
 e. energy savings are not high enough
 f. unclear guidance from DOE on owner contributions
 g. other _____
48. Does your state allow the weatherization of public housing, that is, housing owned by a public housing authority?
 a. Yes
 b. No (go to Q. 43)
 If not, why not? _____
49. Does your agency weatherize public housing?
 a. No
 b. Yes
50. What are the barriers to weatherizing public housing units? _____

51. Does your state allow the weatherization of HUD assisted housing?
 a. Yes
 b. No (go to Q46)
 If not, why not? _____
52. Does your agency weatherize HUD assisted housing?
 a. No
 b. Yes
53. What are the barriers to weatherizing HUD assisted housing? _____
54. How many units of each type were weatherized by your program in PY 2010:

Type of Housing	Large Multi-family (Not Public Housing or HUD Assisted)	Public Housing Multi-family	HUD Assisted Multi-family

55. Are there any DOE rules that could be changed to make it easier to weatherize large low-income multi-family buildings?

a. No

b. Yes

If yes, please explain _____

OIG Evaluation of the Office of Sustainable Housing & Communities Comments

Comment 1 We concur with Office of Sustainable Housing and Communities' planned action to obtain from the Oak Ridge Lab survey results regarding the number of HUD properties that had been weatherized. In the future, the Office of Sustainable Housing and Communities should request that DOE provide HUD with current data to track and identify the number of HUD properties that have been weatherized.

Comment 2 We concur with the planned action to request reports from DOE that identify which HUD qualified properties were weatherized. While HUD cannot "require" DOE to alter its reporting requirements, we strongly encourage the Office of Sustainable Housing and Communities to collaborate and explore methods to enhance the reporting requirements in DOE's Notice 10-13A that are already in place.