U.S. Department of Energy

National Energy Technology Laboratory

February 21, 2012

Carolyn Snyder, PhD
Director of Clean Energy & Climate Policy
Delaware Department of Natural Resources and Environmental Control
89 Kings Highway
Dover, DE 19901

SUBJECT: Financial Management and Administration Monitoring Report under the Weatherization Assistance Program (WAP) American Recovery and Reinvestment Act (Recovery Act) Grant Award No. DE-EE0000174 and Annual Grant Award No. DE-EE0000154 with the State of Delaware

Dear Dr. Snyder:

The program year 2011 financial monitoring of Delaware's WAP Recovery Act and Annual grant awards have been completed via a desk audit. A copy of the report is enclosed.

The programmatic review was conducted on-site by the Project Officers, David Kirschner and Ryan Middleton, on October 25-27, 2011. The results of this review were provided separately.

Thank you for your cooperation throughout the monitoring process. If you have any questions or concerns regarding the enclosed report, please contact your Contract Specialist, Ashley Reichl, at 412-386-4857 or via email at ashley.reichl@netl.doe.gov.

Sincerely,

Lisa Kuzniar

Lisa Kuzniar
Contracting Officer

Enclosure

cc: Ryan Middleton, DOE HQ
John Golovach, NETL
Ashley Reichl, NETL

STATE OF DELAWARE
DELAWARE DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENTAL CONTROL
WEATHERIZATION ASSISTANCE PROGRAM
AWARD ADMINISTRATION MONITORING REPORT
FOR
ANNUAL GRANT NO. – DE-EE0000154
AND
AMERICAN RECOVERY AND REINVESTMENT ACT GRANT NO. – DE-EE0000174

February 21, 2012

FINANCIAL MANAGEMENT AND ADMINISTRATION

Information contained in this monitoring report is based on responses received from the Grantee via the award administration monitoring checklist and/or written/oral communications with the Grantee. The Grantee's responses were verified through the Delaware Weatherization Assistance Program (WAP) Manual, the A-133 Audit Report, and the Budget and Accounting Policy.

The information contained in this Award Administration Monitoring Report is for program year 2011 and applies to both the Annual WAP grant (DE-EE0000154) and the American Recovery and Reinvestment Act (Recovery Act) grant (DE-EE0000174), unless specified otherwise.

ACCOUNTING SYSTEM

The Delaware Department of Natural Resources and Environmental Control (DNREC) adheres to the state of Delaware's Budget and Accounting Policy Manual, which is available online at: http://budget.delaware.gov/accounting-manual/account-manual.shtml.

The cash basis method of accounting is used and the state complies with generally accepted accounting principles.

DNREC has completely revised WAP policies and procedures and has published the Delaware WAP Manual, which is available online at: http://www.dnrec.delaware.gov/energy/services/Documents/Weatherization%20Assistance%20Program/Delaware%20WAP%20Manual%20-%20PJC%2010-24-11.pdf.

The new WAP policies and procedures were developed in October 2011 and were created as a result of findings reported in the U.S. Department of Energy's (DOE) monitoring review completed in early 2011. At the time of the last monitoring review, WAP was administered by the Delaware Health and Social Services Division of State Services Centers. Subsequently, the program was moved to DNREC, where more oversight is being provided and greater controls have been implemented. The new policies and procedures state there will be no comingling of funds. All funds received from separate sources, even though they may be for the same purpose of weatherization, must be maintained in separate accounts.

CASH ADVANCES

The Grantee is on a reimbursement basis; however, they have provided working capital to each of the two Subgrantees under the Recovery Act grant in accordance with 10 CFR 600.221(c). Those funds are kept in interest-bearing accounts by the Subgrantees and any interest earned will be sent back to DOE.

UNCOSTED BALANCES

Uncosted balances, per National Energy Technology Laboratory (NETL) records (Project Officer [PO] Detail Report) as of February 7, 2012, are as follows:

Grant	Authorizations	Draw	Uncosted
Annual (DE-EE0000154)	$2,275,201	-$1,212,779	**$68,399**
Recovery Act (DE-EE0000174)	$13,733,668	-$4,498,934	**$9,234,734**

STATE AUDITS

The most recent A-133 audit for the state of Delaware covered the fiscal year ending June 30, 2010, and was completed on April 1, 2011, by KPMG LLC. Several findings were noted pertaining to WAP. As stated above, the program was administered by the Delaware Health and Social Services Division of State Services Centers at the time of the audit. The program was later moved to DNREC, where more oversight is being provided and greater controls have been implemented.

DNREC issued responses/corrective actions to the audit findings in December 2011. As of the writing of this report, DOE has not issued their response to the corrective actions.

PAYROLL/PERSONNEL

The Grantee has written policies and procedures pertaining to payroll and personnel, which are available online at: http://delawarepersonnel.com/mrules/documents/mrules_complete_073109.pdf. These policies and procedures have not changed since the last monitoring review for program year 2010.

Concern: At the time of this report, DNREC had not provided detailed payroll records for the Annual grant so that a comparison could be made of actual costs versus budgeted costs. Therefore, it could not be verified that DNREC is within budget for payroll costs and the labor categories being charged could not be confirmed.

Corrective Action: Within 30 days of receipt of this report the Grantee must provide appropriate payroll documentation to the Contract Specialist (CS) so that a review can be completed.

Finding: At the time of financial monitoring review, it was discovered that no payroll costs were being charged to the Recovery Act grant. The problem was caused by the way the Recovery Act grant was loaded into their accounting system. DNREC has recognized this error and they are working to correct it.

Corrective Action: Appropriate payroll charges should be charged to this grant. Within 30 days of receipt of this report the Grantee must provide an update to the CS on the status of this issue.

VEHICLES/EQUIPMENT

New policies and procedures pertaining to vehicles and equipment are included in the Delaware WAP Manual, Sections 4.2 and 4.3. These policies and procedures require DNREC and its Subgrantees to track the purchase, use, and disposition of all inventory purchased with weatherization funds. Inventories are conducted on an annual basis.

DNREC has purchased two vehicles under the Recovery Act grant. Both vehicles were purchased using a competitive bidding process and the purchases were pre-approved by DOE.

MATERIALS AND SUPPLIES

DNREC has policies and procedures in place to ensure that materials and supplies are properly charged to the correct program and are in accordance with the Delaware WAP Manual, Section 8.2. All purchases require prior supervisory approval and are also made in accordance with internal control policies and procedures outlined in the Budget and Accounting Policy, Chapter 2, which is located online at: http://www.budget.delaware.gov/accounting-manual/chapter02v49.pdf.

PROCUREMENT

The Grantee complies with policies and procedures included in the Delaware WAP Manual. Provisions for procurement are found in Section 8 and require the purchase of all goods and services to be done through open and free competition, ensuring that the best product or service is received for the most reasonable cost. Internal controls are also followed as outlined in the Budget and Accounting Policy, Chapter 2, which is located online at:
http://www.budget.delaware.gov/accounting-manual/chapter02v49.pdf.

Subcontracts

DNREC has only two subcontractors under the Recovery Act grant. These two subcontracts were reviewed to confirm that all required federal flow-down provisions were included. The following subcontracts were reviewed:

Subcontractor	DOE Grant	Value
First State Community Action Agency, Inc.	Recovery Act	$2,650,000
Neighborhood House	Recovery Act	$2,650,000

The results of this review showed that all appropriate flow-down clauses were included in both subcontracts.

There are currently no subcontractors under the Annual grant.

Invoices

DNREC has updated policies and procedures for invoice processing which are contained in the Delaware WAP Manual, Section 4.4. The Grantee reviews all invoices for accuracy, reasonableness, and appropriate supporting documentation. Payments are processed on a reimbursement basis. The policy stipulates a 30-day turnaround for payment of invoices once they have been approved. DNREC is currently paying invoices in approximately 21 days. Draw-downs are coordinated through the DNREC central fiscal office.

Davis-Bacon Act – Applicable to Recovery Act Grant Only

The Grantee complies with the appropriate Davis-Bacon Act requirements for Recovery Act projects. DNREC collects and maintains original payroll records for all contractors working in the program. They have hired a part-time Davis-Bacon Compliance Officer who routinely coordinates with the Subgrantees and who has been on-site conducting employee interviews with each contractor working in the program.

Subgrantee Financial Monitoring

DNREC has procedures in place to perform financial monitoring of Subgrantees and a copy of these procedures was provided for this review. Monitoring reports for Delaware's two Subgrantees under the Recovery Act grant were not available at the time of this report. New contracts with the Subgrantees were originated in April 2011 and specify that monitoring will be conducted annually. Both Subgrantees are currently scheduled for comprehensive monitoring in early 2012. In the meantime, DNREC maintains close communication with each Subgrantee. DNREC also requires extensive documentation for every invoice and all client work to ensure that costs are accounted for and are allowable. In addition, DNREC has an Annual Administrative Review (AAR) process. Any deficiencies noted with Subgrantees will be documented in the AAR Report and issues needing resolution will be tracked. Details of the AAR process are included in the WAP Manual, Section 6.

RECORD RETENTION

DNREC has a three-year retention policy, which is in agreement with the Office of Management and Budget (OMB) guidelines requiring records to be maintained for a minimum of three years. Adherence to this policy is verified during annual monitoring reviews.

SUMMARY

The results of this Financial Management and Administration Monitoring Review are detailed above. There is one finding for the payroll on the Recovery Act grant and one concern on the payroll for the Annual grant. A response has not yet been issued concerning DNREC's proposed corrective actions addressing findings in the A-133 audit. Other than these items, the results of this Award Administration Monitoring Review found that the Grantee is in compliance with most established policies, procedures, and guidance related to the financial management of these WAP grants.