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October 15, 2012

Mr. Michael Schmitz
Project Coordinator
Department of Commerce
85-7th Pl. E., Suite 500
St. Paul, MN 55101

Dear Mr. Schmitz:

Please find enclosed the report of our evaluation of auditing and internal controls methodology of the Minnesota (MN) Energy Assistance Program (EAP) and Weatherization Assistance Program (WAP) for external validation and recommendation for improvements. We have also provided a review and comparison of EAP and WAP programs at state and national levels to identify industry auditing and internal controls best practices and program models.

We detail our observations regarding the overall internal controls of the programs in this report. After conducting a gap analysis of the programs' current states based on observations and best practices, we noted that many of the programs' procedures and internal controls are considered best practices in the industry. We do note a few potential areas that could be enhanced and have included them in this report.

Please contact me with any questions regarding the review, or if we can provide more information. Thank you for making time for our project team and for the diligent efforts of your team to make it a productive and enjoyable engagement.

We appreciate the opportunity to be of service.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Russell A. Hissom, Partner

Enclosures

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MINNESOTA DEPARTMENT OF COMMERCE

EVALUATION OF AUDITING AND INTERNAL CONTROLS METHODOLOGY
OF THE EAP AND WAP FOR EXTERNAL VALIDATION AND
RECOMMENDATION FOR IMPROVEMENTS

EXECUTIVE SUMMARY

Prepared by:

Baker Tilly Virchow Krause, LLP

October 15, 2012

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INTRODUCTION

Project Background, Objective and Goals

Baker Tilly Virchow Krause, LLP was engaged to evaluate the auditing and internal controls methodology of the Minnesota Energy Assistance Program (EAP) and the Minnesota Weatherization Assistance Program (WAP) for external validation and recommendation for improvements. In Minnesota (MN), the EAP and WAP are both administered by the Division of Energy Resources in the MN Department of Commerce (Commerce).

MN Commerce provides grants to local Community Action Service Providers, counties, tribal governments, and private not-for-profit agencies (collectively, SPs) to deliver each program in their defined geographic areas. MN Commerce has statewide administrative authority over the programs, including:
> Selecting and contracting with local SPs;
> Program and policy development;
> Training and technical assistance;
> Disbursing financial resources;
> Monitoring for compliance;
> Data collection; and
> Reporting.

EAP
The main intent of the MN EAP is to maintain affordable, continuous, and safe home energy for low-income MN households by helping pay home heating costs and furnace repairs. Grants are available for renters or homeowners, based on their household income, household size, fuel type, and energy usage.

The MN EAP is a block grant federally funded through the Low-Income Home Energy Assistance Program (LIHEAP) and administered by the U.S. Department of Health and Human Services (HHS). The block grant legislation[1] gives states broad latitude to develop programs that assist low-income households to meet their immediate home energy needs. The five categories of EAP activities required by law are as follows:
1. Outreach activities;
2. Assistance with home energy costs;
3. Intervention in energy crisis situations;
4. Provision of low-cost residential weatherization and cost-effective energy-related home repair; and
5. Planning, developing, and administering MN Commerce's program, including leveraging programs.

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[1] Title XXVI of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, as amended.

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Federal law also requires MN Commerce to agree to comply with sixteen assurances included in the *State Plan*. The assurances provide the principles that states must use to develop their policies and procedures. EAP services include:

1. Financial aid to pay a portion of heating costs;
2. Crisis intervention for threat of no heat situations or actual no heat situations;
3. Energy Related Repair (ERR) for home heating system repair or replacement; and
4. Referral to Weatherization and other human service providers.

Targeted households include those with members having the following characteristics:

- > Seniors (60 years or over);
- > Disabled members; and
- > Child or children under the age of six.

WAP

WAP is federally funded through the U.S. Department of Energy (DOE). The main goal of this program is to enable income-qualified households to permanently reduce their energy bills by helping to make their homes more energy efficient while protecting the health and safety of family members. Per MN's WAP website[2], services available include:

- > Energy audits to evaluate potential weatherization work;
- > Exterior wall and attic insulation;
- > Air infiltration and bypass sealing;
- > Testing, repair, or replacement of homeowner mechanical systems; and
- > Participant education.

Households must apply for Weatherization through a joint Energy Assistance/Weatherization application, and eligibility is determined using the eHEAT software system, which will prevent the creation of weatherization assistance unless the household has been deemed eligible.

Client priority systems are given to households with the following characteristics:

- > Elderly members (60 years or over);
- > Disabled members;
- > Child or children under the age of 19;
- > High energy consumption households;
- > Family members receiving Temporary Assistance for Needy Families (TANF) or Supplemental Security Income (SSI) within the last 12 months; and
- > High energy burden households.

The expansion of WAP funding due to the American Recovery and Reinvestment Act (ARRA) of 2009 has led to many management challenges and opportunities. Scrutiny of WAP has also increased substantially. Prior to ARRA, WAP reviews were every two years; now, they are quarterly. With the end of ARRA, DOE visits will most likely be yearly going forward.

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[2] http://mn.gov/commerce/energy/topics/financial/Weatherization-Assistance-Program/

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This report provides the observations of Baker Tilly Virchow Krause, LLP's review and evaluation of MN's EAP and WAP auditing and internal control tools methodology and procedures. The report also includes a number of recommendations for MN Commerce to consider in enhancing its risk management process and approach. Finally, Appendix 1 includes a review and comparison of EAP and WAP at state and national levels to identify industry internal controls best practices and existing program models.

For purposes of this Executive Summary, Baker Tilly Virchow Krause, LLP has provided a summary of key observations of current processes, strengths, and opportunities to help mitigate potential program risks.

KEY OBSERVATIONS

Baker Tilly Virchow Krause, LLP has concluded that the overall internal controls surrounding MN EAP's and WAP's effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulation, and oversight of energy vendors, weatherization contractors, and service providers are effectively designed.

Our testing also indicates that, for the areas we observed, the controls are being adhered to, except in some instances which we note under the observations in this report. Furthermore, after conducting a gap analysis of the programs' current states based on observations and best practices, Baker Tilly Virchow Krause, LLP noted that many of the program's procedures and internal controls are considered best practices in the industry. A few potential areas that could be enhanced are included in this report.

Additional documentation supporting Baker Tilly Virchow Krause, LLP's observations, including our evaluation procedures and recommendations can be found within the specific sections and appendices of this report. These observations have been made in the spirit of best practices to build upon the current EAP and WAP oversight processes.

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EAP INTERNAL CONTROLS STRENGTHS AND WEAKNESSES

Controls Area	Strengths	Opportunities
Key Program Oversight, Support and Training	• EAP has implemented a robust internal controls methodology based on COSO standards that has become a model of how internal controls can be integrated into day-to-day operations and management. • MN Commerce created and filled an Internal Controls (IC) Director position in 2011. • EAP's Director has strong partnerships with national working groups, federal grantors, low-income programs, and utilities. • EAP training is thorough, interactive, and well-regarded by attendees. • Coordination and communication between EAP and WAP and other state and federal assistance programs are robust and help foster continued funding and support.	• Consider having the IC Director review a sample of EAP controls as part of the annual audit plan to ensure that some aspects of EAP operations are subject to an annual review. • Create and update specific job descriptions, roles, and responsibilities for EAP staff and business processes. • Consider adding training topics via webinars to ensure timely and consistent adoption of policies and procedures. Also consider separate/additional training for energy vendors to be able to focus on the program areas specific to them.
Fiscal Management	• EAP follows the best practice of making electronic payments directly from the state to the utility/vendor as it appears to be less open to fraud and abuse. • For ERR payments, there has been increased reporting and bidding requirements on the activities to mitigate risks due to error/fraud.	• Increase rigor of EAP Cash Reconciliation Reports.
Compliance & Monitoring	• EAP intake and documentation review processes and internal controls are strong and are followed correctly. • EAP policies and procedures for program monitoring follow best practices with a formalized policy manual, updates communicated timely via multiple formats, and consistent and robust monitoring tools. • EAP follows best practices in its household sampling processes.	• Continue efforts to share verification resources across government departments (e.g., SSA, HHS). • Maintain continuous communication to educate SPs that complete and accurate documentation is a requirement for the federal grant. • Assist SPs in developing their own consistent internal monitoring and reporting mechanisms. • Continue to work closely with energy vendors the

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	• EAP has some consequence management policies in place and actively works to correct problems and enhance the capacity of underperforming SPs.	creation of energy vendor portals to increase internal controls on payments. • Create a comprehensive consequence management policy.
Change Control	• EAP policies and procedures for change control are robust and are formalized in the policy manual, bi-monthly meetings, on-site visits, and communication updates via publications, phone, email, and website. • All stakeholders involved in EAP have good working relationships with the program and the program is very receptive to utility and SP input around program policies, procedures, controls, and software platform improvements.	• Conduct webinars for the more intricate/complex changes to increase the consistency and timeliness of implementation. • Consider making it a requirement that SP Coordinators attend Energy Assistance Coordinator Association (EACA) bi-monthly meetings. • Create an implementation plan for the internal controls needed for new policy changes in unison with the discussions, implementation, and communication of policy changes.
Systems and Software Platform	• The eHEAT software platform is considered by SPs, other state Program Directors, the HHS, and national industry experts to be a very robust system that dramatically increases efficiency, objectivity, consistency, and internal controls. • EAP follows best practices and industry standards for system and database access security and disaster recovery plans.	• Consider updating eHEAT software platform to increase storage capabilities (i.e., allow for inclusion of paper documentation); create better interfaces; and allow for on-line household application.

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WAP INTERNAL CONTROLS STRENGTHS AND WEAKNESSES

Controls Area	Strengths	Opportunities
Key Program Oversight, Support and Training	• The expansion of WAP during the period of ARRA increased WAP's implementation of an internal controls methodology, which is used for its day-to-day operations and management. • MN Commerce created and filled an Internal Controls (IC) Director position in 2011. • WAP's Director has strong partnerships with national working groups, federal grantors, low-income programs, and utilities. • WAP training is thorough, interactive, and well-regarded by attendees. • Coordination and communication between WAP and EAP and other state and federal assistance programs are robust and help foster continued funding and support.	• Consider having the IC Director review a sample of WAP controls as part of the annual audit plan to ensure that some aspects of WAP operations are subject to an annual review. • Continue to update specific job descriptions, roles, and responsibilities for WAP staff and business processes. • Consider adding training topics via webinars to ensure timely and consistent adoption of policies and procedures.
Fiscal Management	• Increased reporting and bidding requirements on weatherization activities have increased mitigation risks due to error/fraud.	• Increase rigor of WAP Cash Reconciliation Reports.
Compliance & Monitoring	• WAP policies and procedures for program monitoring follow best practices with a formalized policy manual, updates communicated timely via multiple formats, and consistent and robust monitoring tools. • The process WAP Field Monitors use to select the households for field auditing presents a weakness in the robustness and results of the audit. • WAP has some consequence management policies in place and actively works to correct problems and enhance the capacity of underperforming SPs.	• Maintain continuous communication to educate SPs that complete and accurate documentation is a requirement for the federal grant. • Assist SPs in developing their own consistent internal monitoring and reporting mechanisms. • To follow audit sampling best practices, consider requiring WAP Field Monitors to select the final, random sample to monitor, regardless of the location of the household and homeowner availability. • Create a comprehensive consequence management policy.
Change Control	• WAP policies and procedures for change control are robust	• Conduct webinars for the more intricate/complex

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	and are formalized in the policy manual, bi-monthly meetings, on-site visits, and communication updates via publications, phone, email, and website. • All stakeholders involved in WAP have good working relationships with the program and the program is very receptive to utility and SP input around program policies, procedures, controls, and software platform improvements.	changes to increase the consistency and timeliness of implementation. • Create an implementation plan for the internal controls needed for new policy changes in unison with the discussions, implementation, and communication of policy changes.
Systems and Software Platform	• The WA software platform is considered by SPs, other state Program Directors, and national industry experts to be a very robust system that dramatically increases efficiency, objectivity, consistency, and internal controls. • WAP follows best practices and industry standards for system and database access security and disaster recovery plans.	• Consider updating the WA software platform to increase storage capabilities (i.e., allow for inclusion of paper documentation); create better interfaces; and allow for on-line household application.

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Procedures

Baker Tilly Virchow Krause, LLP designed its workplan procedures to not only understand the current business processes and internal controls used by MN Commerce and its designated service providers (SPs) and energy vendors, but to also identify areas of risk in the processes that can be improved upon. Detailed procedures are included in each subsequent section of this report and were based on the following guiding activities.

	Program Assessment Activities
1	Prepared and issued information requests.
2	Conducted interviews of MN Commerce personnel involved in EAP and WAP to document an overview of their business processes and controls to eliminate fraud and risk through program policies, technical support, program software, segregation of duties, adequate staffing, quality controls, and monitoring of services and financial activities.
3	Reviewed internal audit reports regarding oversight of EAP and WAP, including recommendations and observations.
4	Obtained and reviewed MN Commerce business process documents and procedures manuals on EAP and WAP programs and on their internal controls framework.
5	Interviewed key MN Commerce business process owners to discuss the activities that are used in the day-to-day management and oversight of the programs.
6	Interviewed service providers and key energy vendor process owners to understand their roles and responsibilities, internal controls, and program quality assurance mechanisms.
7	Performed a process "walk-through" of key controls as identified in the interviews to determine if they are operating as designed.
8	Conducted analysis of program strengths and weaknesses. Documented areas of the walk-through where it was determined that controls are not operating as designed, are ineffective or are not designed properly to reach their objective.
9	Reviewed observations with appropriate MN Commerce personnel for input and insights.
10	Performed a review and comparison of EAP and WAP at state and national levels to identify industry internal controls best practices and existing program models. With this information, a gap analysis was performed to present the programs' current states, future states based on best practices noted, and, ultimately, implementation recommendations.
11	Provide program-specific, detailed, and actionable recommendations for improvements to ensure the programs' effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulation, and oversight of energy vendors, weatherization contractors, and service providers.
12	Issued draft report(s), including observations and recommendations, to MN Commerce for review and feedback.
13	Issued and presented final report, including observations and recommendations, to EAP and WAP personnel and MN Commerce Management.

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1. Key Program Oversight, Support, Training Observations

MN Commerce and its EAP and WAP Directors are assigned the responsibility to ensure each program's success. These responsibilities include:
> Oversight, monitoring, and quality control;
> Compliance with federal and state requirements;
> Policy;
> Decision making;
> Planning;
> Training and technical support;
> Stakeholder involvement and communication; and
> Program advocacy and information.

MN's EAP and WAP provide grants to local Community Action Service Providers, counties, tribal governments, and private not for profit agencies (collectively, SPs) to deliver each program in their defined geographic areas. Each SP is contractually bound to administer the programs according to program policies. There are 34 SPs for EAP and 30 SPs for WAP, all who service households in their geographical areas. Many of the SPs administer other low-income state programs and deal with the same households on several occasions. The SPs that administer EAP and WAP vary in size, location, type of client (e.g., connected utility versus delivered fuel), and technology resources.

EAP SPs are required to attend annual training prior to the start of the program year and are encouraged to attend bi-annual EACA meetings to discuss EAP topics. The SPs are also required to submit a Local Plan prior to the program year. The Local Plan is a work plan and benchmark for assessing SP ability and preparedness to effectively administer and provide EAP benefits and services. EAP Local Plans are approved before the contracts are signed for the coming program year.

While training is not mandatory for energy vendors, SPs are expected to train their vendors and inform them of relevant policy changes. This expectation is communicated through the Local Plan and as part of EAP's initial and full monitoring visits. Also, the EAP Vendor Manager communicates policy changes through energy vendor association newsletters and through presentations at vendor association meetings.

WAP requires all SPs to submit an annual budget for their program, along with a catalog of weatherization service/product costs. While WAP does not have a local plan that is approved by the state, the WAP team reviews SP compliance with state and federal rules and regulations during fiscal and field monitoring. WAP provides group and individual training throughout the year. It has developed a new training program that includes client education, project management, and fiscal training. WAP also requires certification that meets DOE-required 10 hour/30 hour OSHA training for crews, supervisors, and contractors. WAP has also created curriculum for household education as trades people, auditors, and inspectors don't always know how to interact with the household clients. WAP Coordinators attend bi-monthly MN Weatherization Advisory Group (MWAG) meetings to discuss program topics.

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With the implementation of eHEAT and WA, EAP and WAP processes are increasingly automated and streamlined. Electronic internal controls around eligibility, benefit calculation, regular and crisis payment eligibility, duplicate names and/or addresses, average costing for weatherization services, etc. have mitigated many of the issues that existed prior to these systems.

Households must apply for weatherization assistance through a joint Energy Assistance/Weatherization application. Eligibility is determined using the eHEAT software system, which prevents the creation of a weatherization assistance event unless the household has been deemed eligible.

WAP client priority systems are given to households with the following characteristics:
> Elderly members (60 years or over);
> Disabled members;
> Child or children under the age of 19;
> High energy consumption households;
> Family members receiving Temporary Assistance for Needy Families (TANF) or Supplemental Security Income (SSI) within the last 12 months; and
> High energy burden households.

The expansion of WAP funding due to ARRA has led to many management challenges and opportunities, and scrutiny of WAP has also increased substantially. Prior to ARRA, program reviews were every two years; now, they are quarterly. With the end of ARRA, DOE visits/reviews will most likely be yearly going forward.

Procedures Performed in Connection with Baker Tilly Virchow Krause, LLP Conclusions
1. Prepared various information requests to obtain pertinent information/data related to Program Oversight.
2. Conducted interviews with appropriate MN Commerce, SP, and energy vendor personnel involved with this process.
3. Reviewed applicable process documents and procedure manuals as available.
4. Documented processes and identified internal controls in place per understanding of the programs.
5. Documented areas where a determination was made that procedures and processes are not operating as designed, are ineffective, or are not designed properly to reach their objective.
6. Performed a review and comparison of EAP and WAP at state and national levels to identify industry internal controls best practices and existing program models.

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1.1 Internal Controls Framework Implementation

EAP has implemented a robust internal controls methodology that has become an integral part of the program (e.g., risk assessment, documentation policies, process mapping/flow charts, data analysis and reporting, fiscal and operational management tools). With the period of ARRA funding and increased requirements and regulations, WAP has since followed EAP's lead and guidance in implementing an internal controls methodology, which is also used for its day-to-day operations and management (e.g., segregation of fiscal monitoring and field monitoring; robust monitoring tools; increased reporting and data mining tools; issues log tracking; training).

EAP is competent in this area: The implementation of the Internal Controls Framework (ICF) has made the MN EAP a model of how internal controls can be integrated into day-to-day operations and management. EAP has implemented a comprehensive ICF that is based on COSO standards and is regularly reviewed and updated. Its robust internal controls methodology has become an integral part of the program and is used in its day-to-day management (e.g., Local Plan, Policy Manual, audit tools, risk assessment, documentation policies, training, process mapping/flow charts, audit report, fiscal and operational management tools).

EAP continually makes program and ICF adjustments based on federal law and policy changes. EAP's Director is a member of several national working groups, and the program has strong partnerships with federal grantors, state level low-income programs, and utility companies.

EAP Recommendation: Continue to mature ICF competency by reviewing, updating, and integrating the ICF into the day-to-day management of EAP and stay abreast of policy changes that may affect the EAP program (e.g., other low-income programs, federal and state funding/auditing rules, utility assistance programs).

WAP is improving in this area: The expansion of WAP during the period of ARRA funding increased program requirements and regulations and led to many management challenges; opportunities; programmatic changes (e.g., reporting requirements, training and technical assistance procedures, changes in audit approaches); and increased program scrutiny. WAP has since followed EAP's lead and guidance in implementing an internal controls methodology, which is also used for its day-to-day management (e.g., segregation of fiscal monitoring and field monitoring; robust monitoring tools; increased reporting and data mining tools; issues log tracking; training; etc.)

WAP Recommendation: Continue to review, update, and integrate the ICF into the day-to-day management of WAP and stay abreast of policy changes that may affect the WAP program (e.g., other low-income programs, federal and state funding/auditing rules, utility assistance programs).

1.2 MN Commerce ICF Oversight

MN Commerce resources have been dedicated to ICF oversight: MN Commerce created and filled an Internal Controls (IC) Director position in 2011. This position oversees and executes all internal audit duties of MN Commerce and, therefore, has an extensive area throughout the entire MN Commerce for potential reviews. The annual audit plan for IC has not as yet included a review of Energy Division programs managed by EAP and WAP.

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Recommendation: The IC Director should consider reviewing a sample of EAP and WAP controls as part of the annual audit plan. This will ensure that some aspects of EAP and WAP operations are subject to an annual review. MN Commerce should consider the MN Commerce IC Director role as a dedicated strategic and tactical position that can create internal controls to detect/prevent fraud/error and integrate internal controls in business functions.

Using internal MN Commerce resources such as the IC Director would allow any weaknesses found in IC Director reviews to be more directly and immediately remedied before a wider OLA audit. While the IC Director report would still have distribution to MN Commerce Directors, focusing internal resources on problem areas is more effective.

1.3   Backup Staffing

Anytime that multiple entities collaborate to manage programs as expansive as EAP and WAP, it is important that roles, responsibilities, and accountabilities are clear, agreed upon, and well-documented.

MN Commerce fiscal unit lacked backup staffing for a key employee: Documentation of MN Commerce job roles and responsibilities and knowledge transfer activities could be enhanced as the loss of a key MN Commerce employee has made it difficult for the programs to continue their activities in a seamless manner.

EAP is competent in this area but there is room for improvement: EAP has a well-documented business process and project management documents system. This allows easy transfer of responsibilities to other staff when an individual staff member leaves or is temporarily out of the office.

While EAP staff 1) is designated as back-up for key program activities; 2) is cross trained; 3) utilizes written business processes when performing back-up activities; and 4) has created the *Brief Staff Summaries of Program Responsibility and Skills* document, detailed job descriptions are not utilized to fully document job responsibilities. Instead, EAP utilizes process documentation that spells out responsibilities and roles of state and SP staff functions for specific business processes (e.g., field monitoring processes, budget allocation process).

EAP Recommendations:
1. Create and update specific job descriptions, roles, and responsibilities for EAP staff (e.g., daily tasks, month-end tasks, timing of reports, monthly reporting requirements, etc.)
2. Develop an integrated organizational chart including SP program staff to differentiate program roles and responsibilities by function. The benefits of an integrated organizational chart are that it shows the line of authority and communication across stakeholders; it shows the chain of command (i.e., how authority is passed down from higher management level); it shows how different units' work fits into the work of other subunits; and it shows reporting responsibilities and relationships.
3. In cases where roles overlap, discuss how these responsibilities overlap and determine how to best coordinate efforts to reduce possible redundancies and clarify expectations. This process should also include documentation of how EAP and SP roles are intended to intersect and collaborate.

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WAP is competent in this area but there is room for improvement: Existing job descriptions for WAP were updated at the beginning of ARRA. Some descriptions have changed since that time, and these descriptions have been updated in the past two months. There are currently three Field Monitors who provide back up for each other and two Fiscal Monitors who provide back up for each other. This allows easy transfer of responsibilities to other staff when an individual staff member leaves or is temporarily out of the office. With the separation of Fiscal Monitors and Field Monitors, there is some overlap in duties, which could potentially lead to redundancies and/or lack of clarity of job responsibilities.

WAP Recommendations:
1. Continue to update existing job descriptions, roles, and responsibilities for WAP program staff and business processes in a timely fashion, as necessary (e.g., daily tasks, month-end tasks, timing of reports, monthly reporting requirements, etc.)
2. Develop an integrated organizational chart including SP program staff to differentiate program roles and responsibilities by function. The benefits of an integrated organizational chart are that it shows the line of authority and communication across stakeholders; it shows the chain of command (i.e., how authority is passed down from higher management level); it shows how different units' work fits into the work of other subunits; and it shows reporting responsibilities and relationships.
3. In cases where roles overlap (e.g., responsibilities of Fiscal Monitors and Field Monitors), discuss how these responsibilities overlap and determine how best to coordinate efforts to reduce possible redundancies and clarify expectations. This process should also include documentation of how WAP and SP roles are intended to intersect and collaborate.

1.4   Training

EAP is competent in this area: EAP training is thorough, interactive, and well-regarded by the attendees. Increased training and training requirements have stepped up the quality of SP performance. In addition, it has given EAP the opportunity to explain new policies and procedures and to help SPs understand the increased scrutiny of these programs at the federal level and the need for increased documentation. EAP shares policy and process changes with large energy vendors, municipal, cooperative and delivered fuel associations annually. Additionally, SPs provide detailed policy-specific training at the local level.

Due to the cyclical nature of the programs, periods of increased demand are typical and expected. Therefore, cross-training and flexibility is a best practice conducted by many SPs. While EAP does not require SP staff rotation, cross-training is a requirement. EAP has a robust formal training session each summer that is a requirement for all SPs (two employees are required to attend: the SP Coordinator and one other employee). This annual training session is not mandatory for energy vendors, but SPs are expected to train their vendors and inform them of relevant rule changes. This expectation is communicated through the Local Plan, as part of EAP's initial and full monitoring visits, and through SPs vendor agreement meetings each fall. Also, the EAP Vendor Manager communicates rule changes through energy vendor association newsletters and through presentations at vendor association meetings.

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EAP Recommendations:
1. Continue annual EAP training to increase understanding of processes among all three entities (i.e., EAP, SPs, energy vendors). If feasible, consider separate/additional training for energy vendors to be able to focus on the program areas specific to them.
2. Consider adding training topics via webinars. Examples include: 1) appeals process training; 2) identification training so that SP staff is able to spot fraudulent documents and detect possible identity theft; and 3) guidance for SPs on the added "prompts" in eHEAT requiring SPs to have better documentation around ERR work for FFY 2013.

WAP is competent in this area: WAP training is thorough, interactive, and well-regarded by the attendees. Increased training and training requirements have stepped up the quality of SP performance. In addition, it has given WAP the opportunity to explain new policies and procedures and to help SPs understand the increased scrutiny of these programs at the federal level and the need for increased documentation.

WAP has developed a new training program that will include client education (one-day training), project management (three-day training), and fiscal training (two-day training). DOE requires 10 hour/30 hour OSHA training for crews, supervisors, and contractors. Specifically, all workers (inspectors, auditors) are required to have 10 hours of OSHA training; crews/installers are required to have 30 hours of OSHA training; and contractors are required to have 10 hours of OSHA training.

The 2012-2013 WAP State Plan provides for 14 different trainings, many multiple offerings. There is funding, although limited, for group and individual trainings throughout this program. In a typical year, a session on program changes would be held at the State Energy Conference. However, funding restraints led to a cancellation of the conference for 2012.

WAP has also created curriculum for household education as trades people, auditors, and inspectors don't always know how to interact with the household clients. WAP received a DOE grant to expand client education training. It was noted that, due to the changes in policies and procedures with WAP, there are times when more experienced WAP crew workers may not always follow the new regulations and, therefore, will train the new workers incorrectly.

WAP Recommendations:
1. Ensure the weatherization workers attend the required training/certification in a timely fashion.
2. Consider adding training topics via webinars. An example includes guidance on allowable/unallowable WAP services and documentation requirements.

1.5   Cross- and Inter-agency Coordination and Communication

Coordination and communication between EAP and WAP Program Directors and other state and federal assistance programs are robust and help foster continued funding and support. EAP and WAP are closely coordinated so as to enhance performance, support, and funding opportunities. The coordinated relationship between the two programs has been cited as an example of best practice by state and national EAP and WAP personnel.

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MN WAP and EAP also coordinate with an EAP/Weatherization (WX) Policy for funds that are provided by LIHEAP to WAP. Although funding streams are not the same, the EAP and WAP Directors confer often regarding issues that affect both programs.

EAP SPs are required to form agreements with WAP SPs for referral of households and exchange of information to deliver services. WAP uses EAP information to determine household eligibility and households are referred to WAP for weatherization services and specialized emergency services.

MN Commerce has agreements with the Public Utilities Commission (PUC) to enable the coordination of advocacy services related to the PUC enforcement of Cold Weather Rule and other vendor issues. MN Commerce meets regularly with the PUC to get input and communicate changes in programs. The PUC has a member on the EAP Policy Advisory Board (PAC).

Many sub grantees secure funding through other state and federal programs for housing rehabilitation. Sub grantees coordinate those funds with WAP funds when possible and when such activities meet the rules and regulations for all programs providing funding on a given dwelling. WAP meets regularly with MN Housing and Finance Agency staff.

Recommendation: EAP and WAP should continue their coordinated efforts, when appropriate, with each other, the PUC, and state and federal programs. While it was noted that MN's state officials have not chosen to require utilities to provide funding to EAP and WAP directly, it is recommended that WAP and EAP remain proactive with their relationships with the utilities in the event of policy changes.

2. Key Fiscal Management Observations

In broad terms, EAP has two categories of funds, which are distributed differently based on their different functions: 1) funds used by SPs to administer the program; and 2) direct program benefits (i.e., funds for household benefits). Almost all of household benefits are distributed through a central payment system directly to energy vendors on behalf of households and are not transferred to the SPs. Administrative funds are used by the SPs, so these funds are distributed to the SPs electronically.

Funds for SPs to administer the program include administration costs and A16 funds for staff, facilities, infrastructure, materials, etc. The amount each SP receives is a formula-based allocation, authorized through a Notice of Funds Available (NFA). As program rules only allow for three days of cash, SPs request cash based on expenses to cover expenditures through a cash request in eHEAT. Cash requests are approved and distributed electronically (EFT) through the state fiscal system (SWIFT) to the SP accounts.

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Direct Program benefits include primary heat and crisis payments, which are bill payment benefits and ERR funds. Primary heat and crisis benefits are paid through a centralized payment system (eHEAT) and go directly to vendors on behalf of households as electronic payments (with limited exceptions for direct pay situations). Energy vendors are registered with the state and each household has a vendor feed and a name feed file for payment identification. Households without vendor feed files are those who receive payments directly (approximately 6,700 payments go directly to households out of approximately 600,000 payments). When the payment batch runs, an email automatically builds a notification file which creates a letter to the vendor. Vendors get a listing of the customers whom the payments are for so they can track the balances in their system.

In contrast to primary heat and crisis payments, ERR funds are distributed to SPs electronically, who then pay furnace contractors to perform furnace repairs or replacements on behalf of households. ERR activities and payments are controlled through an allocation process in eHEAT, but payments are made by SPs. SPs request cash for this through the same mechanism as their request for administrative funds. The amount of funds paid directly to the SPs for ERR payments is a small percentage of all benefit funds. Last year, approximately $6 million were spent on ERR and $81 million on primary heat and crisis.

Initial SP allocation of funds for EAP are calculated using an internal formula based on historical variables, which is reviewed by the accounting department and approved by the MN Commerce's CFO. Every household gets a letter (mailed) notifying them of the grant amount and criteria used to determine the amount.

Payment of all WAP funds (both administrative costs and household benefits) are distributed to SPs for payment, in a similar process of EAP's ERR activities.

During the month, payments are made to EAP and WAP as the requests are received via eHEAT. These requests are processed for payments within one-to-three days. Documentation for the requested amounts is kept at the SP site and Monitors will verify these amounts during their monitoring visits. At the end of the month, the SPs are required to provide Financial Status Reports (FSRs). These reports are reviewed to ensure monthly expenses match monthly requests. If there are differences, a review is made as to why; most times it is a timing issue (e.g., payroll expenses), but trending is used to ensure it is not something more egregious. The payments are tracked in the EAP and WAP Cash Reconciliation Reports to ensure the SPs are within their allocated budgets. The Cash Reconciliation Reports have some built-in controls (e.g., a formula that flags a request that is more than a percentage of the total annual amount).

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Procedures Performed in Connection with Baker Tilly Virchow Krause, LLP Conclusions

In order to ensure that proper fiscal management is being performed by MN Commerce, Baker Tilly Virchow Krause, LLP reviewed EAP FSRs, WAP fiscal monitoring reports, and the MN Commerce EAP and WAP Cash Reconciliation Reports. The review was designed to verify whether program rules were followed, approvals were made, and proper monitoring of the payments and payment requests were conducted and documented. This included the following activities:

1. Prepared various information requests to obtain pertinent information/data related to program fiscal management.
2. Conducted interviews with appropriate MN Commerce, SP, and energy vendor personnel involved with this process.
3. Reviewed applicable business process documents and procedure manuals as available, including eHEAT and WA.
4. Reviewed and conducted a "walk-through" of MN Commerce EAP and WAP fiscal reports to verify whether program rules were followed, approvals were made, and proper monitoring of the payments and payment requests was conducted and documented.
5. Reviewed and conducted a "walk-through" of the MN Commerce's EAP Cash Reconciliation Report for FY2011 to verify accuracy and timeliness of SP payment requests and payment disbursements, tracking of payment discrepancies, compliance with SP budget allocations.
6. Documented business processes and identified internal controls in place per understanding of the program.
7. Documented areas where a determination was made that procedures and processes are not operating as designed, are ineffective, or are not designed properly to reach their objective.
8. Performed a review and comparison of EAP and WAP at state and national levels to identify industry internal controls best practices and existing program models.

2.1   Payments

EAP follows best practices in this area: EAP follows the best practice of making electronic payments directly from the state to the utility/vendor as it appears to be less open to fraud and abuse. Also, while EAP's ERR payments are made to the SPs who then pay the contractors directly, there has been increased reporting and bidding requirements on the activities to mitigate risks due to error/fraud.

EAP Recommendation: Continue to follow the current process of paying energy vendors directly and electronically when possible. Make an annual review of the design and operation of internal controls in this area part of the annual IC audit plan.

WAP follows best practices in this area: While WAP's standalone payments are made to the SPs who then pay the contractors directly, there has been increased reporting and bidding requirements on weatherization activities to mitigate risks due to error/fraud.

WAP Recommendation: Make an annual review of the design and operation of internal controls in this area part of the annual IC audit plan.

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2.2   Cash Reconciliation

MN Commerce is generally proficient but has room for improvement in this area: While
the MN Commerce Cash Reconciliation Reports provide a good tracking and annual true-up
mechanism for program payments, expenses, budgets, and allocations, there is room for
improvement.

Recommendation: During a walk-through of the EAP Cash Reconciliation Report, it was noted
that there are small areas for improvement. Examples include 1) correcting misleading column
heading titles for payment submission and approval dates; and 2) increased rigor on adding
notes around why a payment was made when it didn't pass the reasonable test or why a
payment was denied.

3. <u>Key Program Compliance and Monitoring Observations</u>

The MN Commerce has a formal and robust monitoring and internal controls program for both
EAP and WAP.

> <u>EAP</u>
> To ensure compliance with EAP requirements, MN Commerce conducts program audits
> of EAP SPs. The program audit helps ensure efficient and effective program delivery
> within the intention, direction, and guidance of the statewide program by reviewing the
> SPs under contract to deliver EAP services.
>
> The audit examines the EAP SP's program and fiscal controls in accordance with the
> *EAP State Plan, EAP Policy Manual, EAP Contract, EAP Local Plan,* and generally
> accepted practices and federal rules for the program period. The EAP Monitors examine
> operations by utilizing eHEAT data, reports, monitoring visits, file reviews, pattern and
> outlier analysis, and other oversight activities to assess SP program delivery and fiscal
> controls competence.
>
> There are currently three EAP Monitors who conduct the program audits and report their
> findings in an annual Program Audit Report (PAR). There are, at a minimum, two on-site
> SP monitoring visits per program year. The "initial monitoring visit" is conducted at the
> beginning of the program year, and the "full monitoring visit" is conducted throughout the
> program year. Each Monitor receives a new list of SPs to audit each year to maintain
> objectivity.
>
> The initial monitoring visits occur to determine if the program is going well and to
> determine if there are any issues. Once the program is funded and started, the EAP
> Monitors conduct their full monitoring visits. The EAP team holds weekly staff meetings,
> which include presentation of the Monitor visits, the issues log, and the incident
> management process. The PAR for each SP is developed by the Monitors, but receives
> input from the whole EAP team. After a PAR is issued, each SP is required to correct
> the findings set forth in the PAR.

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In addition to random sampling, EAP Monitors review monthly data received from SPs and perform field inspections and investigations of data that indicates any aberrations. EAP also does desk monitoring through the various Quality and Performance Controls (Q&PC) reports, the production report, the pending payments report, the refund report, the rate of incidence report (ROI), the weekly application certification targets (WACT), etc.

> WAP
> WAP's monitoring process includes both fiscal monitoring and field monitoring. Fiscal Monitors conduct on-site visits once per year at a minimum, and Field Monitors conduct on-site visits twice per year at a minimum. Fiscal monitoring is completed on five percent of the households; field monitoring is completed on five percent of the total houses weatherized. Field monitoring sample data is selected by both state program staff and SP staff due to distance to travel and availability of clients. Fiscal monitoring is scheduled, but Fiscal Monitors randomly pull files for review at the SP office.

The Fiscal Monitors use the Fiscal and Administrative Monitoring Tool during monitoring visits. Fiscal Monitors look at client files to track a sample of invoices through the fiscal system during the fiscal visit. They look at hard copies to check if approval vouchers or purchase orders are signed, dated, and match the invoice from the contractor and the final payment. They review contractors' files to ensure they have Davis-Bacon forms and 1413 forms. They also check to ensure the contractors are licensed, bonded, insured, etc. The SPs are required to submit a status report each month that the Fiscal Monitors review.

Field Monitors use the Field Monitoring Tool when inspecting homes that received weatherization assistance services. Field Monitors audit the homes to ensure the contractors 1) performed the work within DOE regulations; 2) had the required documentation in the file (e.g., photos prior to and after the work was completed) and the worksheets were filled out completely; 3) entered the information into the system correctly and the work met the eligibility requirements (i.e., the savings investment ratio (SIR) is greater than 1); and 4) completed/installed what was stated on the Work Order at a reasonable cost, etc. Field Monitors also test the equipment to make sure it is working properly (e.g., furnaces, smoke alarms, water heaters).

Fiscal and Field Monitors also review inventories and/or supplies during monitoring visits. Many SPs do not keep inventories but rely on subcontractors to provide supplies and materials. WAP keeps a record of all equipment purchased over $5,000, which requires DOE approval. Fiscal and Field Monitors view equipment during monitoring visits.

In addition to random sampling, WAP Monitors review monthly data received from SPs and perform field inspections and investigations of data that indicates any aberrations. Errors identified through the field monitoring and management-review process are documented in the electronic issues log and kept electronically for a minimum of six years for tracking and training purposes. The WAP team meets once a week to discuss program updates and issues and to review the issues log. The WA system allows WAP to run over 30 reports at any time in order to check statistics such as SIR compliance, measures completed, etc.

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Procedures Performed in Connection with Baker Tilly Virchow Krause, LLP Conclusions

1. Prepared various information requests to obtain pertinent information/data related to program monitoring and compliance.
2. Conducted interviews with appropriate MN Commerce, SP, and energy vendor personnel involved with this process.
3. Reviewed and conducted a "walk-through" of EAP PAR and WAP Fiscal and Field monitoring reports.
4. Documented business processes and identified internal controls in place per understanding of the program.
5. Reviewed applicable business process documents and procedure manuals as available, including eHEAT and WA.
6. Documented areas where a determination was made that procedures and processes are not operating as designed, are ineffective, or are not designed properly to reach their objective.
7. Performed a review and comparison of EAP and WAP at state and national levels to identify industry internal controls best practices and existing program models.

3.1   Third Party Verification through Government Databases

EAP has room for improvement in this area: EAP intake and documentation review processes and internal controls are strong and are followed correctly. However, without the ability to utilize government systems and databases that have functionality for data verification (e.g., social security numbers (SSN) and income), there will always be data integrity risk and inefficiency in the application process. EAP has initiated the process with the Social Security Administration (SSA) to access its database for identity verification. EAP has also initiated discussions with the MN Department of Revenue and the Department of Health and Human Services (HHS) regarding income verification efficiencies.

It has been noted, however, that this is a challenging issue facing EAP at the federal level as both HHS and SSA have acknowledged the challenge of SSN verification because LIHEAP is not included in federal legislation that requires SSA to share such information.

Recommendation: Continue efforts to implement the best practice of sharing verification resources across government departments (e.g., enter an agreement with other government departments that allows EAP to have access to their database resources so they can check and verify SSNs and income). This will increase data accuracy, allow for real-time verification, decrease the time spent on document verification, and ensure that eligible households are receiving the correct benefits.

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3.2   Program Monitoring Improvements

EAP has a competent monitoring system in place: EAP policies and procedures for program monitoring follow best practices, including a formalized policy manual and updates communicated timely throughout the year via multiple formats. It was noted that SPs do not always understand the importance that new regulation requirements can have on the ability to receive funding (e.g., the importance of complying with recording the time of a call, initializing dates, etc.), and that in some cases there are inconsistencies and more documentation needed in areas of the program. It would be expected that with the extent of SPs in this program that there would be some inconsistencies and findings in this area.

While MN Commerce has actively improved its monitoring procedures, implemented additional monitoring activities, and included language in SP contracts, the EAP manual, and training to drive this point home and improve consistency and documentation of program activities, SPs continue to need more direction on the requirement changes that are most integral to program integrity.

In order to assist SPs in this area, in addition to random sampling, EAP Monitors review monthly data received from SPs and perform field inspections and investigations of data that indicates any aberrations. EAP also does desk monitoring through the various Quality and Performance Controls (Q&PC) reports, the production report, the pending payments report, the refund report, the rate of incidence report (ROI), the weekly application certification targets (WACT), etc.

EAP Recommendations:
1. Actively enforce penalties for findings dealing with SP performance (e.g., written corrective action plans that SPs are required to begin implementation within 30 days, with monetary penalties or elimination from program for failure to do so).
2. Maintain continuous communication to educate SPs that detailed, complete, and accurate documentation are requirements for the federal grant, no matter how insignificant the error may seem.

WAP has a competent monitoring system in place: WAP policies and procedures for program monitoring follow best practices, including a formalized policy manual and updates communicated timely throughout the year via multiple formats. It was noted that SPs do not always understand the importance that new regulation requirements can have on the ability to receive funding (e.g., incorrect forms, completed data not being uploaded in WA), and that in some cases there are inconsistencies and more documentation needed in areas of the program. It would be expected that with the extent of SPs in this program that there would be some inconsistencies and findings in this area. This was noted as being a greater challenge for WAP as the program has had to deal with a huge influx of ARRA money, along with DOE rolling out numerous policy changes.

In order to assist SPs in this area, in addition to random sampling, WAP Monitors review monthly data received from SPs and perform field inspections and investigations of data that indicates any aberrations.

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WAP Recommendations:
1. Actively enforce penalties for findings dealing with SP performance (e.g., written corrective action plans that SPs are required to begin implementation within 30 days, with disallowed costs or elimination from program for failure to do so).
2. Maintain continuous communication to educate SPs that detailed, complete, and accurate documentation are requirements for the federal grant, no matter how insignificant the error may seem.

3.3   Program Monitoring Tools and Reporting

EAP follows best practice in this area; not all SPs do, however: While EAP has followed best practices in utilizing formal and consistent tools for monitoring SPs (e.g., Initial and Full Monitoring Visit Tool, Effort Definition Tool, PAR), EAP does not require SPs to be consistent in their internal monitoring and tracking tools, which causes a wide range in SP internal project management. For example, some SPs are very advanced in their internal monitoring (e.g., flow charts, roles/responsibilities documentation, organizational charts, Excel tracking tools, etc.), while others are not.

While lack of internal tracking requirements allows each SP to create monitoring and tracking mechanisms that best meets its local needs, the lack of guidance on essential requirements may lead to inconsistent, incomplete, and inaccurate reporting, which can ultimately result in program noncompliance and fiscal mismanagement.

Also, in response to the occurrence of making crisis payments to households when the households had credit balances in their account, all SPs are required to verify that there is no credit balance in a household's account before obligating a crisis payment. While some energy vendors have this process automated and tracked so that crisis payments can't be made until the SP goes into the energy vendor system and verifies the balance, which is then logged into the system, most energy vendors do not have a web portal for SPs to verify account balances. Unless there is a formal tracking tool in place for all energy vendors and SPs, there is no way of knowing if SP verification for crisis eligibility is being conducted. MN Commerce and the SPs have worked closely with vendors on portal creation and have recently worked with its largest energy vendor to launch a portal.

EAP Recommendations:
1. EAP should help SPs develop consistent internal monitoring and tracking mechanisms. To begin this best practice, EAP should start with a review of SP areas that are consistently the weakest and consider creating formalized templates for SPs to use internally to mitigate the inconsistency, incompleteness, and inaccuracy in these areas.
2. EAP should leverage the SP internal monitoring and reporting templates it has already noted as high quality and distribute them to all SPs for comment, feedback, and, ultimately, acceptance.
3. EAP and SPs should continue to work closely with vendors on portal creation, reaching out for guidance from vendors who already have robust portals.

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WAP follows best practice in this area; not all SPs do, however: While WAP has followed best practices in utilizing formal and consistent tools for monitoring SPs (e.g., Fiscal Monitoring Tool, Weatherization Checklist); WAP does not require SPs to be consistent in their internal monitoring and tracking tools, which causes a wide range in SP internal project management. For example, some SPs are very advanced in their internal monitoring (e.g., flow charts, roles/responsibilities documentation, organizational charts, Excel tracking tools, etc.), while others are not.

While lack of internal tracking requirements allows each SP to create monitoring and tracking mechanisms that best meets its local needs, the lack of guidance on essential requirements may lead to inconsistent, incomplete, and inaccurate reporting, which can ultimately result in program noncompliance and fiscal mismanagement.

WAP Recommendations:
1. WAP should help SPs develop consistent internal monitoring and tracking mechanisms. To begin this best practice, WAP should start with a review of SP areas that are consistently the weakest and consider creating formalized templates for SPs to use internally to mitigate the inconsistency, incompleteness, and inaccuracy in these areas.
2. WAP should leverage the SP internal monitoring and reporting templates it has already noted as high quality and distribute them to all SPs for comment, feedback, and, ultimately, acceptance.

3.4   Monitoring Samples

EAP follows best practices in this area: EAP eliminates bias by removing the human element of sample selection and by conducting a random sample of the complete EAP household population. The determination of the initial primary heat sample size follows the Central Limit Theorem (CLT) for normal distribution (i.e., 20, 25, or 30 households depending on SP household population). Additional primary heat sampling is not random, but is targeted based on what is discovered during a review of the initial random sample. The additional sample size for primary heat sampling is 50 percent of the original sample.

Self-employment households, no-income households, denied households, crisis payment households, and ERR households all have initial and follow-up random samples of five households per SP. All households with energy consumption, crisis payments, and/or ERR payments over a specific threshold are reviewed, as well as all SP A16 data.

WAP needs improvement in this area: WAP Field Monitors do not select the final list of households from which they perform their monitoring review. Instead, the Field Monitors select a range of households for efficiency purposes and due to lack of overall funding to support the lengthy waiting times caused by the inability to schedule clients and the distance between households. SPs then select the households from the list provided by WAP Field Monitors. WAP Fiscal Monitors conduct a random sample of household files to monitor without any input from the SPs.

While the process of Field Monitors providing SPs a list of possible households to audit allows them the ability to attain their requirement of monitoring five percent of completed total houses, it presents a weakness in the robustness and results of the audit. In fact, in best practices, this sample methodology is unacceptable.

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WAP Recommendations:
1. WAP Field Monitors should select the final, random sample to monitor, regardless of the location of the household and homeowner availability. This may result in a more time-consuming process, but the audit will be considered more independent.
2. WAP should consider adopting a best practice noted in other state WAP activities: having Field Monitors work four 10-hour days to allow for greater travel time and a wider window for the homeowner/tenant to be present at the house. It is noted that this work schedule may need to accommodate the seasonal changes in the amount of daylight hours.

3.5   Service Provider Penalties

While EAP and WAP have some consequence management policies in places, there is room for improvement as it has been difficult for MN Commerce to impose the defined penalties/consequences on underperforming SPs that are not complying with the rules and regulation of the programs (e.g., administrative penalties/disallowed costs, lack of follow-up on communication, corrective action plans for noncompliance, frozen funds, defunding).

EAP is showing improvement in this area: Despite the challenging political implications of dismissing some underperforming SPs, EAP has some consequence management policies in place, and EAP actively works to correct problems and enhance the capacity of underperforming SPs. As a consequence of these efforts, two SPs in the past four years have voluntarily ended their provision of EAP services. In addition, EAP engaged 14 SPs in corrective action plans in Federal Fiscal Year (FFY) 2012 to ensure their compliance with program policies. Funds were frozen in FFY 2012 for two underperforming and unresponsive SPs.

SPs receive additional monitoring if they consistently do not comply with program rules and regulations. If subsequent SP monitoring indicates that improvements have not been made, then additional steps may be taken, such as alternative administration procedures, administrative monetary penalties, and/or withdrawal of future contracts. In the short term, state concerns over SP capacity or compliance with program policy may result in a temporary freeze of program funds.

Late or incorrect reports are subjected to a three-phase correction process: the first incidence results in a notice to the EAP Coordinator; the second instance results in a notice to the SP's Executive Director; the third instance results in a notice to the SP's Governing Board and a visit from the EAP Monitor to meet with the Executive Director and EAP Coordinator to assist in a corrective action plan. Future violations will result in an administrative fine of $500. Violations reaching the penalty stage may put the SP at risk of being eliminated from future selection as a program SP.

EAP has a detailed base plan for merging SPs. Currently, one SP has merged within another SP; another SP has had its EAP taken over in the past year.

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EAP Recommendations:
1. Create a comprehensive consequence management policy, which builds on, improves, and refines the consequence policies currently in place and actively enforces consequences for findings concerning SP performance (e.g., written corrective action plans that SPs are required to begin implementation within 30 days; monetary penalties; actionable responses to email reminders; frozen funds; elimination from program for failure).
2. Continue to be in contact with agencies that could be able to take over the role of a noncompliant SP (e.g., either by merging SPs or partnering with a new local agency).

WAP is showing improvement in this area: Despite the challenging political implications of dismissing some underperforming SPs, WAP has some consequence management policies in place. WAP is currently working with two SPs on corrective action plans to put them into program compliance. WAP has defunded one non-compliant SP during the past three years.

SPs receive additional monitoring if they consistently do not comply with program rules and regulations. If subsequent SP monitoring indicates that improvements have not been made, then additional steps may be taken, such as alternative administration procedures, disallowed costs, and/or withdrawal of future contracts. In the short term, state concerns over SP capacity or compliance with program policy may result in a temporary freeze of program funds.

WAP Recommendations:
1. Create a comprehensive consequence management policy, which builds on, improves, and refines the consequence policies currently in place and actively enforces consequences for findings concerning SP performance (e.g., written corrective action plans that SPs are required to begin implementation within 30 days; disallowed costs; actionable responses to email reminders; frozen funds; elimination from program for failure).
2. Consider increasing the time required to begin implementation of a corrective action plans for WAP, given the logistics of lining up contractors, client availability, etc.
3. Continue to be in contact with agencies that could be able to take over the role of a noncompliant SP (e.g., either by merging SPs or partnering with a new local agency).

3.6   Segregation of Duties

Segregation of duties is one of the most important classes of internal controls used to prevent or detect fraud. When EAP and WAP enforce segregation of duties, no one person can process a sensitive transaction from start to finish.

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EAP follows best practices in this area: MN Commerce's polices on segregation of duties follow industry best practices across all monitoring activities.
> When possible, the SPs segregate the duties between the individuals who receive the funds, record the funds, authorize the expenditure of funds, prepare the check, and sign the checks.
> EAP Monitors receive a new list of SPs to audit each year to maintain objectivity.
> eHEAT segregates activities by role (e.g., SP, energy vendor, state employee).
> eHEAT security management allows for assignment of eHEAT roles to separate functions by user at the vendor level. Energy vendors cannot edit household eligibility or payments amounts. eHEAT tracks user interaction with consumption records, and SPs and MN Commerce monitor these activities.
> MN Commerce monitors eHEAT user records to examine separation of duties. There are also user records for application completion, benefit determination, and other application activities.

EAP Recommendations:
1. For small SPs that do not have the employees to allow for complete segregation of duties, EAP Monitors should perform additional sampling (i.e., increase the number of household sample reviews).

WAP follows best practices in this area: MN Commerce's polices on segregation of duties follow industry best practices across all monitoring activities.
> WAP follows the best practices of segregation of duties between the individuals who audit the house for weatherization and those who inspect the weatherization work.
> With the beginning of the ARRA-funded period, WAP was able to implement the best practice of segregating the duties of Field and Fiscal Monitors.
> Segregation of duties allows WAP Field and Fiscal Monitors to be better trained in their specific area of monitoring, thereby increasing the accuracy and value of the work.

WAP Recommendations:
1. For small SPs that do not have the employees to allow for complete segregation of duties, WAP Monitors should perform additional sampling (i.e., increase the number of household sample reviews).
2. WAP should continue its segregation of duties between Fiscal and Field Monitors. If, however, this turns out to be economically impossible, WAP should continue its focus on the development of robust monitoring tools, internal controls, training, and hiring of experienced and qualified employees so that there will be no negative consequences with the return of the dual monitor position.

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4. Key Program Change Control Observations

Program change is on-going and is a challenge to consistently reach all program representatives who have a need for the information. Inconsistent dissemination of program information can result in disparate process knowledge and compliance requirements throughout the program. With so many external organizations involved in EAP and WAP, there is a real risk that sub grantees, contractors, and energy vendors may lack awareness of process and compliance expectations. Observations from process walk-throughs suggest that current communication and change management strategies are robust but could be enhanced to be more effective to achieve desired results.

MN Commerce utilizes the following means to present, instruct, and monitor EAP and/or WAP policy and procedural changes:
> *EAP and WAP Policy Manuals*
  The policy manuals are formally updated on an annual basis, although policy and procedural changes occur throughout the policy year. All changes that occur during the program year are presented in one of the following venues. These changes are then included in the next annual policy manual.
> *Electronic News*
  The Energizer and WAP Wire are weekly and monthly newsletters published by MN Commerce to inform SPs of policy and procedural updates and to communicate pertinent information. SPs are required to understand and comply with directives in *The Energizer and WAP Wire*. When it is necessary to immediately communicate with EAP SPs, EAP distributes an email called *A Spark*. All issues of *A Spark* are incorporated into the next *The Energizer* and are official communications holding the weight of policy. Each publication of *The Energizer and WAP Wire* is posted on the EAP and WAP websites. Also, EAP notes all changes (in red) in the online EAP manual and WAP includes a list of changes on its website.
> *Tools on the Web*
  Forms and program information are available to SPs on MN Commerce's Tools, located at www.energy.mn.gov > click on "Low Income Assistance" > click on "For Energy Assistance Providers" >click on "Service Provider Forms."
> *Telephone*
  Each SP has access to EAP and WAP Monitors via telephone to ask questions and discuss policy and procedural changes.
> *Email*
  EAP and WAP each have a dedicated email address for responding to SP questions.
> *Stakeholder Meetings*
  Bi-monthly EACA and MWAG meetings and policy advisory meetings are held and attended by the Program Directors, at which time policy and/or procedural changes are discussed.

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> *On-site Visits with SP Coordinators and SP Staff*
> *Annual Training*
> MN Commerce provides a robust annual training for all EAP SPs and energy vendors. It is now required that two personnel from each SP attend the training. This training presents the newly updated policy manual and goes through all changes to the program policies and procedures.

Each SP interviewed has a different process to disseminate policy and procedural updates. Some SP Coordinators forward *The Energizer, WAP Wire,* and *A Spark* to their teams, along with an email describing the change. Others, in addition to email distribution, request a meeting ("round-up" / "huddle") to discuss the policy or procedural change. All do not hesitate to contact the MN Commerce office for questions. Many attend the bi-monthly EACA and MWAG meetings to hear an explanation of the changes. All EAP SPs are required to attend annual EAP training. EAP and WAP also document all policy and procedural changes on the MN Commerce website: WAP has a list of all changes; EAP notes the changes (in red) in the online EAP manual.

While training is not mandatory for energy vendors, EAP SPs are expected to train their vendors and inform them of relevant rule changes. This expectation is communicated through the SP Local Plan and as part of the initial and full monitoring visits. Also, the EAP Vendor Manager communicates rule changes through energy vendor association newsletters and through presentations at vendor association meetings. Further, policy and procedural changes are posted on the EAP website.

Procedures Performed in Connection with Baker Tilly Virchow Krause, LLP Conclusions
1. Prepared various information requests to obtain pertinent information/data related to program change control.
2. Conducted interviews with appropriate MN Commerce, SP, and energy vendor personnel involved with this process.
3. Documented business processes and identified internal controls in place per understanding of the program.
4. Reviewed applicable business process documents and procedure manuals as available.
5. Documented areas where a determination was made that procedures and processes are not operating as designed, are ineffective, or are not designed properly to reach their objective.
6. Performed a review and comparison of EAP and WAP at state and national levels to identify industry internal controls best practices and existing program models.

4.1   Communication of Policies and Procedures

EAP is improving in this area: While the annual publication of a written program policy manual is considered best practice, it was noted that there is some confusion among SPs as to last minute policy and/or procedural directives that are made outside the annual program update process. It should be noted that, as of the date of this report, no major issues of program noncompliance or mismanagement have arisen due to EAP's policy and procedural change control process.

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EAP publishes a weekly newsletter (*The Energizer*) to inform SPs of program updates, and *A Spark* publication for immediate communication of EAP changes. Also, EAP notes all changes (in red) in the online EAP manual and encourages SPs to ask individual questions via *eap.mail* and to contact their PPAs for clarification. While these methods are used effectively by the SPs, several SPs have noted that the verbiage is not always clear as to what the policy revision is and how it should be implemented, which may cause SPs to understand and/or implement the change differently.

Although program changes are communicated immediately through the issuance of the above-mentioned publications, the timing of policy advisory meetings and EACA bi-monthly meetings can cause a lag before the EAP Director and the SP Coordinators can discuss, in-person, to gain a thorough and consistent understanding of the changes. This may effect a delay in the adoption of the policy or procedural change, which may ultimately result in program noncompliance and fiscal mismanagement.

EAP Recommendation: To reduce SP confusion regarding policy and procedural changes made to the program outside of the annual update process, immediately following the issuance of *The Energizer* and *A Spark,* EAP should conduct webinars for the more intricate/complex changes so that all SPs can partake in the discussion and increase the consistency and timeliness of implementation. In addition, to ensure that SPs have immediate feedback and/or input on any policy or procedural changes, it should be a requirement that SP Coordinators attend the EACA bi-monthly meetings.

WAP is improving in this area: While the annual publication of a written program policy manual is considered a best practice, it was noted that there is some confusion among SPs as to last minute policy and/or procedural changes that are made outside the annual program update process. It should be noted that, as of the date of this report, no major issues of program noncompliance or mismanagement have arisen due to WAP's policy and procedural change control process.

Although program changes are communicated immediately through emails, the MN Commerce website, and, most recently, with the issuance of *WAP Wire,* the timing of policy advisory meetings and MWAG bi-monthly meetings can cause a lag before the EAP Director and the SP Coordinators can discuss, in-person, to gain a thorough and consistent understanding of the changes. This may effect a delay in the adoption of the policy or procedural change, which may ultimately result in program noncompliance and fiscal mismanagement.

WAP Recommendation: To reduce SP confusion regarding policy and procedural changes made to the program outside of the annual update process, immediately following the issuance of *WAP Wire,* WAP should conduct webinars for the more intricate/complex changes so that all SPs can partake in the discussion and increase the consistency and timeliness of implementation. In addition, to ensure that SPs have immediate feedback and/or input on any policy or procedural changes, it should be strongly encouraged that the SP Coordinators attend the MWAG bi-monthly meetings.

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4.2   Stakeholder Involvement

EAP is competent in this area but there is room for improvement: All stakeholders involved in EAP stated that they have good working relationships with the program and that the program is very receptive to utility and SP input around program policies, procedures, controls, and software platform improvements. However, while EAP follows this best practice of involving program stakeholders (e.g., EAP personnel, EAP SP Coordinators, energy vendors) in the discussion of program policy changes, procedural changes, and internal controls, it was noted that the internal controls needed for a new policy change were not always implemented in unison with the policy change.

For example, during conversations concerning the new crisis payment rule changes, both vendors and SPs were unsure of how these new rules would play out and what controls were still needed to be in place for EAP, energy vendors, and SPs. It has been noted that implementing internal controls in unison with policy changes is a best practice that EAP strives to do. In this specific example, however, the policy change was enacted at the last minute and controls were not in place at that time of this report. Instructions on the EAP program changes were sent to the SPs and any questions that came in were promptly answered in detail in *The Energizer*, in ad hoc email responses, and at EACA meetings. New internal control measures have since been created, vetted, communicated, and are currently in the process of being implemented by energy vendors prior to the start of the EAP program year.

EAP Recommendation: EAP, SPs, and energy vendors should create an implementation plan for the internal controls needed for new policy changes (both electronic and manual controls) in unison with the discussions, implementation, and communication of policy changes.

WAP is competent in this area but there is room for improvement: All stakeholders involved in WAP stated that they have good working relationships with the program and that the program is very receptive to SP input around program policies, procedures, controls, and software platform improvements. However, while WAP follows this best practice of involving program stakeholders (e.g., WAP personnel, WAP SP Coordinators) in the discussion of program policy changes, procedural changes, and internal controls, it was noted that the internal controls needed for a new policy change were not always implemented in unison with the policy change.

WAP Recommendation: WAP and SPs should include an implementation plan for the internal controls needed for new policy changes (both electronic and manual controls) in unison with the discussions, implementation, and communication of policy changes.

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5. Key Program System and Software Platform Observations

Procedures Performed in Connection with Baker Tilly Virchow Krause, LLP Conclusions
1. Prepared various information requests to obtain pertinent information/data related to program system and platform software.
2. Conducted interviews with appropriate MN Commerce, SP, and energy vendor personnel involved with this area.
3. Reviewed and conducted a "walk-through" of the eHEAT and WA systems and reports.
4. Documented business processes and identified internal controls in place per understanding of the program.
5. Reviewed applicable business process documents and procedure manuals as available.
6. Documented areas where a determination was made that procedures and processes are not operating as designed, are ineffective, or are not designed properly to reach their objective.
7. Performed a review and comparison of EAP and WAP at state and national levels to identify industry internal controls best practices and existing program models.

5.1 Program Software

EAP follows best practices in this area: The eHEAT software platform used for both EAP and WAP is considered by MN's SPs, other state Program Directors, the HHS, and national industry experts to be a very robust system that dramatically increases efficiency, objectivity, consistency, and internal controls (e.g., data quality, eligibility verification, payment transfers). The best practice around this category is to own and maintain a computer system with modern infrastructure and interfaces so that all information resides at the state level to enable 1) data mining via standard and ad hoc queries; 2) the ability for local agencies to put information directly into the system; and 3) the ability to monitor the local agencies. eHEAT meets these requirements.

While eHEAT has been considered a success by the industry, it may be reaching the limit on its system capabilities, and an upgrade may be needed in the near term.

EAP Recommendation: Consider updating eHEAT software platform to 1) increase storage capabilities (i.e., allow for inclusion of paper documentation); 2) create better interfaces; and 3) allow for on-line household application.

If on-line application does become an aspect of the system, it is important that 1) the internal controls are in place prior to go-live as the clients will be providing/scanning the documents into the system, which increases the risk of data integrity; and 2) the SPs do not lose the face-time connection to their clients as these clients are frequently recipients of other SP programs. Some states are looking at on-site kiosks as a way to automate the process yet continue the SP-client connection.

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WAP follows best practices in this area: The WA software platform used for WAP is considered by MN's SPs, other state Program Directors, and national industry experts to be a very robust system that dramatically increases efficiency, objectivity, consistency, and internal controls. The best practice around this category is to own and maintain a computer system with modern infrastructure and interfaces so that all information resides at the state level to enable 1) data mining via standard and ad hoc queries; 2) the ability for local agencies to put information directly into the system; and 3) the ability to monitor the local agencies. WA meets these requirements.

While WA has been considered a success by the industry, it may be reaching the limit on its system capabilities, and an upgrade may be needed in the near term.

WAP Recommendation: Consider updating WA software platform to increase storage capabilities (i.e., allow for inclusion of paper documentation) and create better interfaces.

5.2   System and Database Access, Security and Disaster Recovery

EAP and WAP follow best practices in this area: EAP and WAP follow best practices and industry standards for system and database access security and disaster recovery plans (e.g., written procedures on sharing and handling confidential data; signed security agreements; user account and password protocol and protection; system of access controls that restrict SP and energy vendor employees' access to the database to that portion of the system necessary to complete their job function; systems that identify and differentiate users so that activities on the system can be linked to specific individuals; off-site backup system; and maintenance of a Continuation of Operations Plan (COOP)).

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APPENDIX 1

EAP AND WAP BEST PRACTICES AND GAP ANALYSIS

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Please See Attached Preliminary Report of Best Practices Analysis

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PROJECT INTERVIEW TABLE

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Interview ID	Interviewee and Title	Company/Division	Audit Area of Expertise
01	Bill Grant, Deputy Commissioner Steve Carlson, Deputy Commissioner-Chief of Staff	MN DOE	Project Oversight
02	Sheldon Klugman, MN Commerce Internal Controls Director	MN Commerce	MN Commerce Internal Controls
03	John Harvanko, EAP Director	MN Commerce	EAP Oversight
04	Tracy Smetana, EAP Field Monitor Amanuel Asghedom, EAP Field Monitor	MN Commerce	EAP Service Provider Oversight
05	Ken Benson, eHEAT Administrator	MN Commerce	EAP System Administration and Risk Assessment Oversight
06	Doug Burns, EAP Policy Coordinator	MN Commerce	EAP Policy and Allocation Oversight
07	Jeff Mitchell, EAP Strategic Planner/Management Analyst	MN Commerce	EAP Strategy and Management Methodology Oversight
08	Marilou Cheple, WAP Director	MN Commerce	WAP Oversight
09	Chris Trost, WAP Fiscal Monitor	MN Commerce	WAP Service Provider Fiscal Compliance
010	Eric Boyd, WAP Field Monitor	MN Commerce	WAP Service Provider Operational Compliance
011	Steve Loomis, WA Administrator	MN Commerce	WAP System Administration
012	Amy Trumper, Financial Services Accounting Director	MN Commerce	EAP and WAP Fiscal Oversight
013	Amy Trumper, Financial Services Accounting Director Mark Kaszynski, Accountant	MN Commerce	EAP and WAP Fiscal Oversight
014	Tim Jahnke, CFO	MN Commerce	EAP and WAP Fiscal Oversight
015	Scott Zemke, EAP Coordinator	Community Action Partnership of Suburban Hennepin County	EAP Service Provider Oversight

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016	Taura Edwards, Indiana EAP Program Manager	Indiana Housing and Community Development Authority (IHCDA)	EAP Oversight
017	Gwen Howe, Iowa WAP Director	IA Commerce	WAP Oversight
018	Nancy Cummings, EAP and WAP Coordinator	Mahube-Otwa Community Action	EAP and WAP Service Provider Oversight
019	Tammy Stauffer, EAP and WAP Coordinator Susan Hilla, Director of Family Services	Scott-Carver-Dakota Community	EAP and WAP Service Provider Oversight
020	Dan Roberts, Community Development Director	Tri County Action Program	WAP Service Provider Oversight
021	Karen Moe, MNCAP Director	MN CAP (Association of MN Community Action Agencies)	EAP and WAP Service Provider Oversight
022	Kay Joslin, Author of LIHEAP Working Group Integrity Plans	LIHEAP Clearinghouse	EAP Best Practices and Federal Department of Commerce Processes and Controls
023	Lauren Christopher, ACF Administer of LIHEAP (HHS) Matt Orlovick, Program Analyst and LIHEAP Regional Liaison - Region 5	Department of Health and Human Service (HHS) – Administration of Children and Families (ACF)	EAP Best Practices
024	David Carroll, Managing Director Jackie Berger, President	Apprise Consulting	EAP and WAP Best Practices
025	Gary Hulke, Credit Manager	Crystal Valley Coop	Energy Vendor/EAP Coordination
026	Pat Boland, Manager Credit Policy & Compliance	Xcel Energy	Energy Vendor/EAP Coordination
027	Greg Schirmers, Customer Service/Credit Manager Bev Lambkins , Customer Service/Credit Manager	CenterPoint Energy	Energy Vendor/EAP Coordination
028	Larry Dawson, Deputy Director and Current Chair of the National Energy Assistance Directors' Association (NEADA)	Illinois Department of Commerce and Economic Opportunity	EAP and WAP Service Provider Oversight