



LAURA N. CHICK
INSPECTOR GENERAL

STATE OF CALIFORNIA
OFFICE OF THE INSPECTOR GENERAL
AMERICAN RECOVERY ACT FUNDS

Transmitted via e-mail

August 18, 2010

Mr. Jose Lopez, Executive Director
Campesinos Unidos, Inc.
1005 C Street
Brawley, CA 92227

Dear Mr. Lopez:

Final Review Report—Campesinos Unidos, Inc., Review of Contract 09C-1811

The State of California, Office of the Inspector General (IG), American Recovery and Reinvestment Act (ARRA) reviewed contract 09C-1811 awarded to Campesinos Unidos, Inc. (CUI) by the Department of Community Services and Development (CSD) for the United States Department of Energy Weatherization Assistance Program (DOE-WAP), referred to as the DOE-ARRA program.

The DOE-WAP offers a comprehensive range of services and energy conservation measures applied to a dwelling to help reduce energy use. The main measures provided by the weatherization program include: in-home energy education, energy-related home repairs, blower-door guided air sealing, heat system safety tests, repairs and tune-ups (and replacements for safety reasons), duct insulation and sealing, attic insulation, and hot water savings measures (insulation blankets and low-flow showerheads). The DOE-WAP enables eligible low-income families to permanently reduce their energy bills by making their homes more energy efficient.

Scope

The CUI was awarded ARRA funds totaling \$2,674,929 for the DOE-ARRA program. As of the review period, CUI reported expending \$739,717 on the federal DOE-ARRA program.

The IG conducted a review of ARRA funds received and expended for the period June 30, 2009 through March 31, 2010. The review's objectives were to determine if CUI properly accounted for and used ARRA funds in accordance with ARRA requirements, applicable laws, and regulations.

The CUI's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and program requirements, as well as evaluating the efficiency and effectiveness of the program. Unless identified during our review of ARRA funds, we did not assess the efficiency or effectiveness of program operations.

Methodology

The CUI's accounting records and supporting documents were reviewed to determine if ARRA funds were properly accounted for and expended. Costs allocated to various CUI programs and the allocation method was reviewed for propriety and reasonableness. To determine whether revenues and expenditures complied with applicable laws and regulations, the following procedures were performed:

- Interviewed key personnel and reviewed applicable policies and procedures to gain an understanding of program-related internal controls.
- Reviewed contracts between CUI and subcontractors.
- Reviewed revenues to determine if they were properly recorded and supported.
- Selected a sample of expenditures reported to determine whether they were:
 - Allowable
 - Program related
 - Incurred within the reporting period
 - Adequately supported
 - Properly recorded

Summary of Review

The review disclosed several significant issues: lack of transparency in accounting records, understated expenditures, claiming of inappropriate expenditures, lack of critical training and technical assistance, and understated jobs.

Expenditures Lack Transparency

Due to excessive and confusing accounting adjustments, we were unable to reconcile CUI's expenditures per their records to the monthly expenditure activity reports submitted to CSD. Specifically, CUI retroactively revised or added budget line item definitions, descriptions, and expenditure categories, and then executed numerous expenditure adjustments to shift costs. As a result, we found expenditures that were not ARRA related but were billed to ARRA, were charged to the wrong expenditure account, were charged to the wrong category of costs (i.e., salaries were charged to operating expenses), and purchases that should not have been expensed. Additionally, general ledger information did not reconcile to supporting documentation. After extensive efforts to follow CUI's accounting transactions, we were not able to verify the expenditures claimed by CUI.

Expenditures Understated by \$45,300

Beginning in September 2009, CUI sub-contracted with the California Conservation Corps (CCC) for CCC participants to receive \$10 per hour. For the period September 2009 through December 2009, CCC participants received ARRA-required training. The CCC DOE-ARRA training hours totaled 1,169 (\$11,690) for that period. January 2010, CCC began providing DOE-ARRA weatherization installation services. For the period January 2010 through March 2010, CCC participants' hours totaled 3,361 (\$33,610).

CUI has not paid CCC, nor have they included the expenditures in their accounting records. Our inquiry found that CUI management was unaware of the financial liability to CCC for all CUI program services.

Inappropriate Expenditures Claimed of \$34,803

CUI billed and was reimbursed by CSD \$45,578 in indirect cost for the DOE-ARRA program. However, CUI only incurred \$21,025 in indirect costs. As such, CUI overbilled and was reimbursed an excess of \$24,553.

The CUI claimed and was reimbursed for unrealized expenditures of \$10,250. The CUI prepaid for its annual audit services, which have not yet occurred and charged \$5,250 to ARRA. Additionally, CUI paid \$5,000 for a security deposit for its building and charged the amount to ARRA. The CUI should immediately reimburse the CSD for \$34,803 of overbilled ARRA funds.

Critical Training and Technical Assistance is Lacking

The DOE-ARRA training required for completing weatherization improvement projects, and field training required for field supervisors, assessors, and inspectors has not been completed by employees of CUI and subcontractors. CSD contracted with Richard Heath & Associates, Inc. (RHA), to provide field training and assessments that included Duct Sealing/Blower Door diagnostics, Combustion Appliance Safety, Field Assessment, and Quality Assurance. As of March 31, 2010, RHA training had not been provided to CUI employees and other subcontractors. Also, CUI assessors in San Diego County have been assessing homes for weatherization improvement needs without completing and passing the required training classes.

Inadequate training creates additional liability for CUI and the State, and may serve to reduce the effectiveness of weatherization projects. In other words, there are untrained people performing weatherization improvement projects, potentially resulting in work being done improperly, not up to code, and/or not creating energy savings.

Understated Jobs Created

For the periods ended December 31, 2009 and March 31, 2010, CUI respectively reported 4.55 and 13.57 jobs created and retained. Based on IG staff computation, CUI should have reported 4.94 (under reported by .39) and 15.98 (under reported by 2.41).

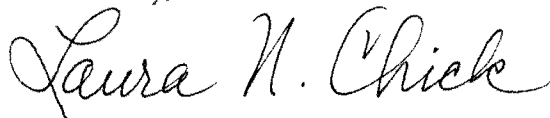
Conclusion

To allow for transparency and accountability of ARRA funds, CUI should observe all federal and state directives to ensure that ARRA funds are spent and accounted for in accordance with applicable laws, rules, and regulations. The CUI should more actively oversee the expenditure of ARRA funds, its processes, and its subcontractors, and work with CSD to ensure contract and program requirements are met. Finally, the CUI should expedite payment to CCC for weatherization installation training and services and CUI should immediately reimburse the CSD for \$34,803 of overbilled ARRA funds.

In accordance with the Inspector General's policy of increased transparency, the final report will be placed on our website, <http://www.inspectorgeneral.ca.gov>.

We appreciate the assistance and cooperation of the CSD and CUI. If you have any questions regarding this report, please contact, Angie Williams, Director of Accountability, at (916) 324-6662.

Sincerely,



LAURA N. CHICK
California Inspector General
American Recovery and Reinvestment Act Funds

cc: on following page

cc: Mr. Rick Rice, Director, California Recovery Task Force
Ms. Erika Sperbeck, Assistant Secretary, California Health and Human Services Agency
Mr. Cliff Allenby, Director, Department of Community Services and Development
Mr. Andrew Signey, Acting Chief Deputy Director, Community Services and Development
Mr. Ronn Kaiser, Chief Counsel, Department of Community Services and Development
Ms. Denise Arend, Program Operations Manager, Department of Community Services and
Development
Mr. Jason Wimbley, Division Chief, Department of Community Services and Development
Ms. Toni Carrillo, Energy Manager, Campesinos Unidos, Inc.



CAMPESINOS UNIDOS, INC.

1005 "C" STREET
POST OFFICE BOX 39
BRAWLEY, CALIFORNIA 92227

Administration (760) 351-5100
Social Service (760) 344-4500
FAX (760) 344-0322

SOCORRO JUAREZ
PRESIDENT

JOSE M. LOPEZ
EXECUTIVE DIRECTOR

SERVICES

Child Development
Community Services
Energy-Weatherization
Food Commodities
Head Start
Health Services
House-Rehab
Immigration
Income Tax Preparation
Job Training
Youth Services

August 11, 2010
Laura N. Chick
Office of the Inspector General

Subject: CUI Action Plan regarding the findings presented by the Office of the Inspector General.

Expenditures Lack Transparency

Due to excessive and confusing accounting adjustments, we were unable to reconcile CUI's expenditures per their records to the monthly expenditure activity reports submitted to CSD. Specifically, CUI retroactively revised or added budget line item definitions, descriptions, and expenditure categories, and then executed numerous expenditure adjustments to shift cost. As a result, we found expenditures that were not ARRA related but were billed to ARRA, were charged to the wrong expenditure account, were charged to the wrong category of costs (i.e. - salaries were charged to operating expenses), and purchases that should not have been expensed. Additionally, general ledger information did not reconcile to supporting documentation. After extensive efforts to follow CUI's accounting transactions, we were not able to verify the expenditures claimed by CUI.

CUI's response:

CUI is currently reconciling every single expense against reimbursement reports (EARS) submitted to CSD, in order to clearly identify every item included therein, some of these actions are:

- Support every expense and assure that is being paid by DOE-ARRA fund.
- Duly reconciliation of salaries, wages and fringe benefits expensed against the "job sheets" reported by CUI's energy department to avoid discrepancies,
- Reclassify salaries and wages accordingly to administrative or operating type of work, including assessors and outreach staff.

(Continue)



CAMPESINOS UNIDOS, INC.

1005 "C" STREET
POST OFFICE BOX 39
BRAWLEY, CALIFORNIA 92227

Administration (760) 351-5100
Social Service (760) 344-4500
FAX (760) 344-0322

SOCORRO JUAREZ
PRESIDENT

JOSE M. LOPEZ
EXECUTIVE DIRECTOR

SERVICES

Child Development

Community Services

Energy-Weatherization

Food Commodities

Head Start

Health Services

House-Rehab

Immigration

Income Tax
Preparation

Job Training
Youth Services

Expenditures Understated by \$45,300

I-Beginning in September 2009, CUI sub-contracted with the California Conservation Corps (CCC) for CCC participants to receive \$10 per hour for weatherization installation training; and in January 2010 CCC began providing DOE-ARRA weatherization installation services. For the period September 2009 through December 2009, the CCC DOE-ARRA training hours totaled 1,169 (\$11,690); however, CUI has not paid CCC nor have they included the expenditures in their accounting records. Our inquiry found that CUI management was unaware of the financial liability to CCC for all CUI program services. Furthermore, we estimate that another 3,361 hours (\$33,610) for CCC services provided January 2010 through March 2010 have not been paid.

CUI's response:

CUI is currently working on the allocation of this CCC expense among all different projects involved through an accrual.

Inappropriate Expenditures Claim of \$34,803

CUI billed and was reimbursed by CSD \$45,578 in indirect cost for the DOE-ARRA program. However, CUI only incurred \$21,025 in indirect costs. As such, CUI overbilled and was reimbursed an excess of \$24,553.

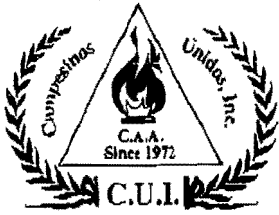
The CUI claimed and was reimbursed for unrealized expenditures of \$10,250. The CUI prepaid for its annual audit services, which have not yet occurred and charged \$5,250 to ARRA. Additionally, CUI paid \$5,000 for a security deposit for its building and charged the amount to ARRA. The CUI should immediately reimburse the CSD for \$34,803 of overbilled ARRA funds.

CUI's response:

CUI commonly adjusts at the year-end (June 30) any overstatement or understatement that the indirect cost represents against the actual indirect cost incurred. Also, a new adjusted rate is calculated for the following fiscal year, based on actual indirect cost of the ended year.

Please find attached the corresponding entry as of the year end (June 30, 2010) which adjusts aforementioned indirect cost.

(Continue).



CAMPESINOS UNIDOS, INC.

1005 "C" STREET
POST OFFICE BOX 39
BRAWLEY, CALIFORNIA 92227

Administration (760) 351-5100
Social Service (760) 344-4500
FAX (760) 344-0322

SOCORRO JUAREZ
PRESIDENT

JOSE M. LOPEZ
EXECUTIVE DIRECTOR

SERVICES

Child Development

Community Services

Energy-Weatherization

Food Commodities

Head Start

Health Services

House-Rehab

Immigration

Income Tax
Preparation

Job Training
Youth Services

Security deposit expense has been reclassified to balance sheet (please see adjustment entry attached).

Additionally, corrective reclassification entries were done to capitalize prepaid expenses (advances) and then amortize them according to the beneficial period thereafter. In case of audit advance fee, we considered it incurred already, since this was required by auditors to start their review in February 2010, therefore, this service fee was rendered by the audit of the financial statements ending as of June 30, 2010.

The reimbursement to CSD regarding these overstated expenses is not possible since CUI has not been reimbursed yet, thus, CUI will amend the corresponding reports to avoid the overstatement of receivables from CSD due to aforementioned findings.

Critical Training and Technical Assistance is Lacking

The DOE-ARRA training required for completing weatherization improvement projects, and field training required for field supervisors, assessors and inspectors has not been provided to employees and subcontractors. CSD contracted with Richard Heat & Associates, Inc., to provide field training and assessment that included Duct Sealing/Blower Door diagnostics, Combustion Appliance Safety, Field Assessment and Quality Assurance. As of March 31, 2010, training had not been provided. Also, CUI assessors in San Diego County have been assessing homes for weatherization improvement needs without completing and passing the required training classes. Inadequate training and oversight of program services creates additional liability for CUI and the State, and may serve to reduce the effectiveness of weatherization projects.

CUI's response:

Field training for field supervisors, assessors and inspectors was not provided by Richard Heath and Associates, Inc. during the review period due to the fact that it was not available to agencies. Trainings have to be provided by a CSD approved agency. Therefore, CUI staff was not able to obtain the training from anyone else. Upon availability of field training by RHA, CUI will schedule these training appropriately. CUI has scheduled assessors in San Diego County to receive all the required trainings as per the required matrix.

(Continue)



CAMPESINOS UNIDOS, INC.

1005 "C" STREET
POST OFFICE BOX 39
BRAWLEY, CALIFORNIA 92227

Administration (760) 351-5100
Social Service (760) 344-4500
FAX (760) 344-0322

SOCORRO JUAREZ
PRESIDENT

JOSE M. LOPEZ
EXECUTIVE DIRECTOR

SERVICES

Child Development
Community Services
Energy-Weatherization
Food Commodities
Head Start
Health Services
House-Rehab
Immigration
Income Tax Preparation
Job Training
Youth Services

Disregard for "Buy-America" Requirement

Our review of CUI's invoices, receipts, and processes for purchasing weatherization materials determined that CUI is not adhering to ARRA's "Buy American" requirement. Although this stipulation is clearly addressed in CUI's contract with CSD, CUI has not developed guidance, policy, or a process to ensure this requirement is met.

CUI's response:

CUI will exhaust all options to purchase American made products to the extent practicable when possible. CUI will request all vendors to inform us when products are not America made.

Understated Jobs Created

For the periods ended December 31, 2009 and January, 2010, CUI respectively reported 4.55 and 13.57 jobs created and retained. Based on IG staff computation, CUI should have reported 4.94 (under reported by .39) and 15.98 (under reported by 2.41).

CUI's response:

As discussed during your visit, we overlooked one employee and a whole payroll (No.1 January 2010) corresponding to second and third quarters respectively. CUI is expecting an answer from CSD personnel regarding this issue, since apparently we had only 30 days to amend these reports.

Please refer this letter in response of your Review Report -Campesinos Unidos, Inc. Review of Contract 09C-1811.

Jose M. Lopez
Executive Director
CUI

The State of California, Office of the Inspector General (IG) of the American Recovery and Reinvestment Act (ARRA) funds issued a draft review report to Campesinos Unidos, Inc., on August 4, 2010. We received CUI's response to that report on August 11, 2010.

We appreciate CUI's response to our review report and willingness to take corrective action.