

# The Commonwealth of Massachusetts

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INDEPENDENT STATE AUDITOR'S REPORT ON  
CERTAIN ACTIVITIES OF THE  
FUEL ASSISTANCE PROGRAM  
OCTOBER 1, 2004 TO JUNE 30, 2006

OFFICIAL AUDIT  
REPORT  
DECEMBER 4, 2006

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**INTRODUCTION****1**

The Low Income Home Energy Assistance Program (LIHEAP), also known as the Fuel Assistance Program, provides financial assistance to eligible households trying to meet the high cost of winter heating bills. The program began in 1977 with funding totaling \$5 million that the federal government provided through the federal Community Services Administration (CSA). Federal funding of the Fuel Assistance Program, which has continued annually since 1977, totaled approximately \$118 million in fiscal year 2006.

State funding of the Fuel Assistance Program began in 1980, at which time the Commonwealth appropriated \$15 million to supplement the federal expenditure on the program. The state continued funding the program through fiscal year 1999, when the state expended \$750,000 on the program. For fiscal years 2000 through 2004, the state did not fund the Fuel Assistance Program. However, in response to rising energy costs and an increased need for fuel subsidies, the state restored funding for the Program for fiscal years 2005 and 2006 through state appropriations totaling \$7.5 and \$20 million, respectively.

The Fuel Assistance Program, which operates between October 1 and September 30 each year, is designed to provide relief to those low-income households most vulnerable to the high cost of home heating energy in relation to gross income. Presently, the Department of Housing and Community Development (DHCD) has state administrative and fiscal oversight of the federally and state funded program. Local service delivery is achieved through a network of 22 Local Administering Agencies (LAAs) under contract with DHCD (See Appendix I).

Households with incomes of up to 200% of the federal poverty level are eligible for the Fuel Assistance Program. Both homeowners and renters are eligible to apply for assistance, and LAAs determine household eligibility based on annualized income and household size. Because of the significant increase in both federal and state funding, on average, eligible households received fuel assistance benefits totaling approximately \$787 during fiscal year 2006, an increase of \$222, or 39%, from the prior year (see page 9). In addition, the number of eligible households increased more than 4% for fiscal year 2006, increasing to 141,014 from 135,068 during fiscal year 2005 (see page 11).

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a follow-up audit of DHCD's Fuel Assistance Program to determine the status of issues identified in our prior audit (No. 2004-5108-3C). Our objectives were to assure the Commonwealth that DHCD has strengthened its income verification procedures whereby only the target population, low-income households most vulnerable to the high cost of home heating energy, benefits from the Fuel Assistance Program; and to provide updated information on the environmental and economic factors previously reported as having the greatest impact upon low-income families trying to meet their home heating cost. These factors include (a) severe winter seasons, (b) increases in fuel consumption and costs, (c) increases in the number of program recipients, and (d) the level of state program funding.

Our follow-up audit found that DHCD has issued new program guidelines that require LAAs to better document family income prior to awarding fuel assistance benefits. Also,

DHCD is taking steps to perform the post audit review of the Fuel Assistance Program required by Chapter 62E, Section 3, of the General Laws. Moreover, we found that state funding of the fuel assistance program has been restored by the Legislature following a five year absence of such funding. However, contrary to our prior audit recommendations, DHCD still does not require LAAs to obtain income tax returns from all applicants. Finally, the environmental and economic factors that hindered this program's effectiveness in the past, (i.e. rising fuel costs and increases in the numbers of program applicants), have continued to hamper the program's effectiveness over the past two winter seasons. Thus, despite increased federal and state funding for the Fuel Assistance Program, low-income families still have serious difficulties meeting their annual fuel cost.

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### **1. PRIOR AUDIT RESULTS PARTIALLY RESOLVED**

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#### **a. Income Verification Process Improved For The Fuel Assistance Program**

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DHCD has strengthened its income verification procedures to help ensure that only the target population—low-income households most vulnerable to the high cost of home heating energy—benefits from the Fuel Assistance Program. Specifically, DHCD has amended the Fuel Assistance Program application process whereby household income is no longer based upon applicants' oral testimony to intake workers. Moreover, LAAs are now required to solicit mortgage and real estate tax information from program applicants. However, contrary to our prior audit recommendation, DHCD still does not require LAAs to obtain tax returns from all households applying for fuel assistance.

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#### **b. Certain LAAs Have Started Utilizing the Massachusetts Wage Reporting and Financial Institution Matching System (WRMS) to Detect and Prevent Program Abuse. In Addition, DHCD Has Initiated A Post-Audit Review of the Fuel Assistance Program To Include the WRMS System.**

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The WRMS system allows LAAs and DHCD to match wages declared by fuel assistance applicants with wages reported to the Department of Revenue by applicants' employers. As our previous report noted, LAAs requested wage matches for only 64 applicants during fiscal year 2003. During fiscal year 2006, LAAs requested 829 wage matches through the WRMS system. Thus, over the three-year period, LAAs have significantly increased their utilization of the WRMS system.

Additionally, our follow-up audit found that DHCD reviewed applicant files for fiscal year 2006 and performed 54 wage match reviews for certain selected applicants.

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### **2. ENVIRONMENTAL AND ECONOMIC FACTORS CONTINUE TO IMPACT THE FUEL ASSISTANCE PROGRAM**

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Our prior audit found that various environmental and economic factors, over which DHCD has virtually no control, had the greatest impact upon low-income families trying to meet their annual home heating costs. These factors included (a) severe winter seasons, (b) increases in fuel consumption and costs, (c) increases in the number of

program recipients, and (d) the absence of state program funding. Our current review found that over the past two winter seasons, the economic and environmental factors which impact the Program's effectiveness have changed significantly. Specifically, the average cost of home heating oil has increased by \$.45 per gallon, while the consumption of fuel oil has decreased an average of 84 gallons per household due to warmer winter temperatures. In addition, funding of the Fuel Assistance Program has been restored by the state, as the Legislature appropriated \$7.5 and \$20 million for the Program for fiscal years 2005 and 2006, respectively. However, any program efficiencies resulting from the milder winter weather and the restored state funding were more than offset by rising fuel oil costs and the increased number of program applicants. Consequently, the Legislature will need to continue, and when necessary, increase, funding for the Fuel Assistance Program to ensure the future success of this vital program that low-income families of the Commonwealth rely upon as a means to remain warm during the winter months.

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## INTRODUCTION

### *Background*

The Low Income Home Energy Assistance Program, also known as the Fuel Assistance Program, provides financial assistance to eligible households trying to meet the high cost of winter heating bills. The program began in 1977 with funding totaling \$5 million that the federal government provided through the federal Community Services Administration (CSA). Federal funding of the Fuel Assistance Program, which has continued annually since 1977, totaled approximately \$118 million in fiscal year 2006.

Initially, the Fuel Assistance Program focused on providing emergency fuel assistance to eligible households that were unable to meet rising energy costs and were threatened with the discontinuance of service. With the transfer of program authority from the CSA to the federal Department of Health and Human Services (HHS) in 1980, the Fuel Assistance Program shifted its focus to income supplementation rather than crisis intervention. Moreover, in 1980 the Commonwealth appropriated \$15 million for the first time to supplement the federal expenditure on the Fuel Assistance Program. However, state funding of the Fuel Assistance Program was discontinued following fiscal year 1999, and was not restored until fiscal years 2005 and 2006, for which years state appropriations totaled \$7.5 and \$20 million, respectively.

The Fuel Assistance Program operates between October 1 and September 30 each year. The program is designed to provide relief to those low-income households most vulnerable to the high cost of home heating energy in relation to gross income. Presently, the Department of Housing and Community Development (DHCD) has state administrative and fiscal oversight of the federally funded program. Local service delivery is achieved through a network of 22 Local Administering Agencies (LAAs) under contract with DHCD (See Appendix I).

Households with incomes of up to 200% of the federal poverty level are eligible for the Fuel Assistance Program. Both homeowners and renters are eligible to apply for assistance, and LAAs determine household eligibility based on annualized income and household size. For fiscal year 2006, 173,778 households applied for fuel assistance, of which 144,020 (83%) were deemed eligible by LAAs. The remaining 29,758 households (17%) were deemed ineligible for fuel assistance because these applicants submitted incomplete applications, had household incomes that exceeded

the program's established limits, or provided inadequate supporting documentation of their household's income. On average, households served received fuel assistance benefits totaling approximately \$787 during fiscal year 2006. Appendix II provides further details regarding the number of applications received and approved by LAAs during fiscal year 2006, as well as the average and total fuel assistance benefits provided by each LAA during the period.

### ***Audit Scope, Objectives, and Methodology***

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted a follow-up audit of DHCD's Low Income Home Energy Assistance Program, also known as the Fuel Assistance Program. The purpose of our follow-up audit was to determine the status of issues identified in our prior audit (2004-5108-3C) and to update program statistics relating to fuel assistance applications and benefits. Our follow-up audit was conducted in accordance with generally accepted government auditing standards. The audit period was October 1, 2004 to June 30, 2006.

The objective of our follow-up audit was to assure the Commonwealth that DHCD has taken corrective action to resolve our prior audit findings. Our specific objectives were to determine whether DHCD:

- Amended its program application to incorporate a checklist of potential income sources, and ensured that applicants are continuing to certify under penalty of perjury all statements they make on the Fuel Assistance Application.
- Amended its program guidelines to require LAAs to obtain income tax returns and mortgage and real estate tax payments from Program applicants.
- Collaborated with the Department of Revenue to develop an administrative mechanism for the purpose of verifying eligibility and detecting or preventing ineligible recipients from receiving benefits.
- Included within its budget submission to the Legislature a provision for a "rainy day" fund within the Fuel Assistance Program.

To achieve our audit objectives, we reviewed applicable laws, regulations, policies and procedures relative to the Fuel Assistance Program. We contacted DHCD and obtained updated statistics regarding fuel assistance applications and benefits.

We interviewed officials at two LAAs to assess their business practices and compliance with applicable laws, rules, regulations, and guidelines. We used these interviews to help assess the effectiveness of DHCD's current program guidelines. We also obtained statistics from the Massachusetts Division of Energy Resources (DER) relative to home heating fuel costs and consumption during the audit period.

Our follow-up review found that, for the areas reviewed, DHCD has strengthened its program guidelines whereby LAAs must include a checklist of potential income sources on their fuel assistance applications. Moreover, LAAs are now required to solicit mortgage and real estate tax information from program applicants. We also found that DHCD is taking steps to perform the post audit review of the Fuel Assistance Program as required by Chapter 62E, Section 3 of the General Laws. In addition, state funding of the Fuel Assistance Program was restored by the Legislature for fiscal years 2005 and 2006. However, contrary to our prior audit recommendations, DHCD still does not require LAAs to obtain income tax information from all fuel assistance applicants.

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## AUDIT RESULTS

### 1. PRIOR AUDIT RESULTS PARTIALLY RESOLVED

DHCD has strengthened its income verification procedures to help ensure that only the target population—low-income households most vulnerable to the high cost of home heating energy—benefits from the Fuel Assistance Program. Specifically, DHCD has amended the Fuel Assistance Program application process whereby household income is no longer based upon applicants' oral testimony to intake workers. Moreover, LAAs are now required to solicit mortgage and real estate tax information from program applicants. In addition, DHCH is taking steps to perform the post audit review of the Fuel Assistance Program as required by Chapter 62E, Section 3 of the General Laws. However, contrary to our prior audit recommendation, DHCD still does not require LAAs to obtain tax returns from all households applying for fuel assistance.

#### a. Income Verification Process Improved For The Fuel Assistance Program

Our prior audit reported that DHCD needed to strengthen its program guidelines to help ensure that applicants' reported all sources of family income. Specifically, DHCD's application form (Massachusetts Energy Assistance) did not provide a specific location for applicants to detail all sources of income and amounts. Instead, applicants simply provided oral testimony to LAA intake workers regarding household income. In addition, DHCD did not require applicants to submit any documentation regarding mortgage and real estate tax payments or participation in a municipality's deferred tax program. Without such documentation, we questioned whether LAAs could accurately assess the financial means of households. The prior audit also reported that with the exception of households that earned income through self-employment, DHCD's program guidelines did not require LAAs to obtain tax returns from households applying for fuel assistance. By not requiring tax returns in the application process, DHCD was limiting a LAA's ability to independently verify the accuracy of an applicant's income and household living expense.

During our follow-up review we found that DHCD strengthened its income verification procedures to help ensure that applicants report all household income. Specifically, DHCD has amended its application form to include a checklist of potential income sources, which intake workers review with program applicants. Moreover, LAAs must continue to collect



income documentation necessary to validate the household's eligibility at the time of intake. In addition, DHCD has amended the program's guidelines whereby LAAs must solicit information about applicants' real estate holdings and yearly mortgage and real estate tax payments.

To test LAAs' compliance with DHCD's policy changes, we visited two LAAs during the audit (New England Farm Workers Council, Inc. and Valley Opportunity Council, Inc.). Each LAA had amended its program application to include DHCD's required checklist of potential income sources. Also, both LAAs had actively solicited information from program applicants about their real estate holdings and related payments prior to awarding them program benefits. Thus, there is adequate assurance that DHCD and LAAs have implemented our prior audit recommendations in these areas.

However, contrary to our prior audit report recommendations, DHCD still does not require LAAs to obtain income tax returns from all program applicants. Based upon DHCD's program guidelines, LAAs must only collect tax returns from households that earn income through self-employment.

***Recommendation***

We again urge DHCD to obtain income tax documents from program applicants. This requirement should be imposed upon all applicants who are required to annually file tax returns. Applicants who are unwilling to comply with this requirement should be excluded from consideration for fuel assistance benefits.

**b. Certain LAAs Have Started Utilizing the Massachusetts Wage Reporting and Financial Institution Matching System (WRMS) to Detect and Prevent Program Abuse. In Addition, DHCD Has Initiated A Post-Audit Review of the Fuel Assistance Program To Include the WRMS System.**

To help detect or prevent abuse within the Fuel Assistance Program, the Legislature, under Chapter 62E, Section 3, of the General Laws, authorized and directed the Commissioner of the Department of Revenue (DOR) to design, develop, implement, and operate a state Wage Reporting and Financial Institution Matching System (WRMS). This law required the Commissioner to enter into inter-agency agreements with other agencies of the Commonwealth, including DHCD, to facilitate the implementation and utilization of the

WRMS system. The WRMS system enables DHCD to match wages declared by applicants with wages reported to DOR by applicants' employers.

Our prior audit found that DHCD had made limited use of the WRMS system. Of the 158,179 households that applied for fuel assistance during fiscal year 2003, DHCD requested DOR to perform wage matches on only 64 applicant households, or .04%.

At the time, DHCD and LAA officials explained that the WRMS system was used "as needed" and that wage match requests originate solely from LAAs. Moreover, these officials stated that LAAs only submit wage match requests if they suspect that an applicant is not being forthright about his/her income. Lastly, the officials explained that the WRMS system is not used for random testing or post-audit testing of fuel assistance recipients.

However, the Legislature intended that the WRMS system would be utilized as a post-audit mechanism for the purpose of verifying eligibility and detecting or preventing fraud, error, and abuse in the Fuel Assistance Program. Specifically, Chapter 62E, Section 3, of the General Laws states, in part:

*The commissioner shall design, develop, implement and operate a wage reporting and financial institution match system: (1) for the purpose of verifying financial eligibility of a participant in an entitlement program of the commonwealth or any political subdivision thereof or their respective agencies, including the director of housing and community development, a local administering agency and a local housing authority, and including, the division of health care finance and policy with respect to payments for free care services made from the uncompensated care pool pursuant to section 18 of chapter 118G.....*

*The commissioner is hereby further authorized and directed to enter into such inter-agency agreements with other agencies of the commonwealth as said commissioner deems are necessary to facilitate the implementation and utilization of the reporting system. Such written agreements shall include provisions requiring such agencies, their subgrantees, or local administering agencies, including local housing authorities, to provide at a date specified by the commissioner a list of persons receiving benefits from such programs. Information in such lists shall include the recipient's name, social security number and other data required to assure positive identification. Such information shall be utilized in the reporting system as a post audit mechanism for the purpose of verifying eligibility and detecting and preventing fraud, error and abuse in said programs....*

Our follow-up audit found that LAAs have further utilized the WRMS to help detect and prevent program abuse. Specifically, during fiscal year 2006, program applications totaled 173,778 through June 30, 2006. Of this amount, LAAs requested DHCD to perform wage

matches on 829 applicant households, or .47%. As previously reported, for fiscal year 2003, program applications totaled 158,179, and requests from LAAs for wage matches totaled 64, or .04%. Thus, over the three-year period, LAAs have significantly increased their utilization of the WRMS system. Appendix III provides complete details relative to LAAs' use of the WRMS during fiscal years 2005 and 2006.

As previously reported, DHCD is mandated under Chapter 62E, Section 3 of the General Laws to perform a post-audit review of the Fuel Assistance Program. Our follow-up audit found that DHCD is taking steps to comply with this law. Specifically, for fiscal year 2006, DHCD's post-audit review process (site visits) began in November 2005 and concluded in February 2006. The process consisted of interviews with Executive Directors, Program Directors and Intake staff; a review of approximately 100 applicant files per agency, including certified, denied and appeals; and 54 wage match requests utilizing WRMS as required by law. Random and pre-selected applications reviewed included applications for the self-employed, applications for wage earners, applications for individuals with zero income, and applications for those receiving public assistance. Final reports include assessment results of client files and operational issues. A written report was submitted to the participating agencies. Eleven agencies participated in the post-audit review process.

### ***Recommendation***

We believe that DHCD's actions relative to this matter were appropriate. In this regard, we again recommend that the agency continue to comply with the requirements of Chapter 62E, Section 3, and continue to utilize and expand the use of WRMS to verify eligibility and detect or prevent ineligible recipients from receiving benefits.

## **2. ENVIRONMENTAL AND ECONOMIC FACTORS CONTINUE TO IMPACT THE FUEL ASSISTANCE PROGRAM**

Our prior audit found that various environmental and economic factors, over which DHCD has virtually no control, had the greatest impact upon low-income families trying to meet their annual home heating costs. These factors included (1) severe winter seasons, (2) increases in fuel consumption and costs, (3) increases in the number of program recipients, and (4) the absence of state program funding. Our current review found that over the past two winter seasons, these economic and environmental factors, which continue to impact the Program's effectiveness,

have changed significantly. Specifically, the average cost of home heating oil has increased by \$.45 per gallon, fuel oil consumption across the Commonwealth on average decreased by an average of 84 gallons per family due to warmer winter temperatures, and the Legislature appropriated funding of the Fuel Assistance Program totaling \$7.5 and \$20 million for fiscal years 2005 and 2006, respectively. However, any program efficiencies resulting from the milder winter weather and the added state funding were more than offset by the rising cost of fuel oil and the number of families added to the program. Consequently, the Legislature will need to continue, and when necessary, increase, funding for the Fuel Assistance Program in the future to ensure that low-income families of the Commonwealth have a means to remain warm during the winter .

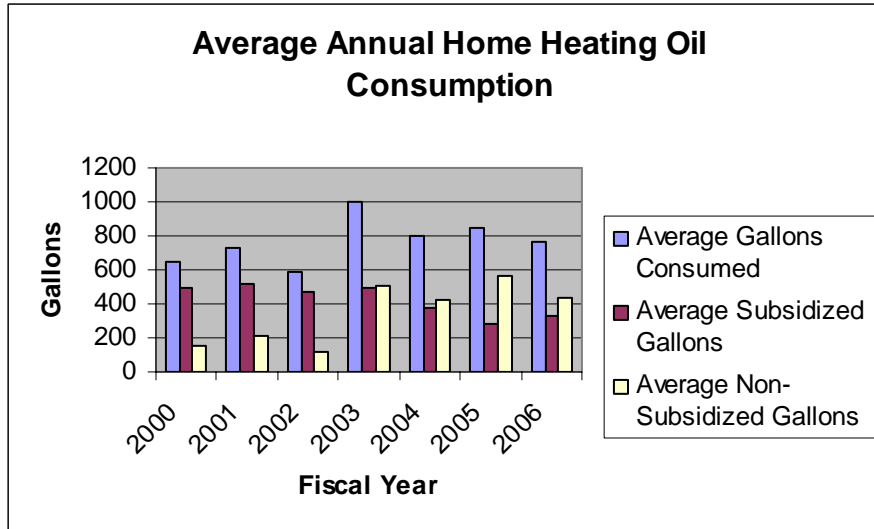
- a. Effects of Severe Winter Weather Upon Fuel Consumption: During abnormally cold heating seasons, households require additional home heating fuel (natural and propane gas, electricity, fuel oil) to keep warm. Such increases can create a financial burden for low-income families, since historically fuel subsidies have not kept pace with seasonal increases in demand for home heating fuel. Consequently, as low-income households deplete their fuel subsidies, they may need to choose between heating their homes or buying food, medication, or other basic needs.

Our prior audit, for example, compared the 2001/2002 winter season, which was considered a warm<sup>1</sup> season by the Massachusetts Division of Energy Resources (DER), to the 2002/2003 winter season, which DER considered a cold season. We found that the average fuel assistance subsidy increased during that period from \$416 to \$551, a 32% increase. Yet during the same period, we reported that households on average increased their fuel oil consumption from 588 to 1,000 gallons, or a 70% increase.

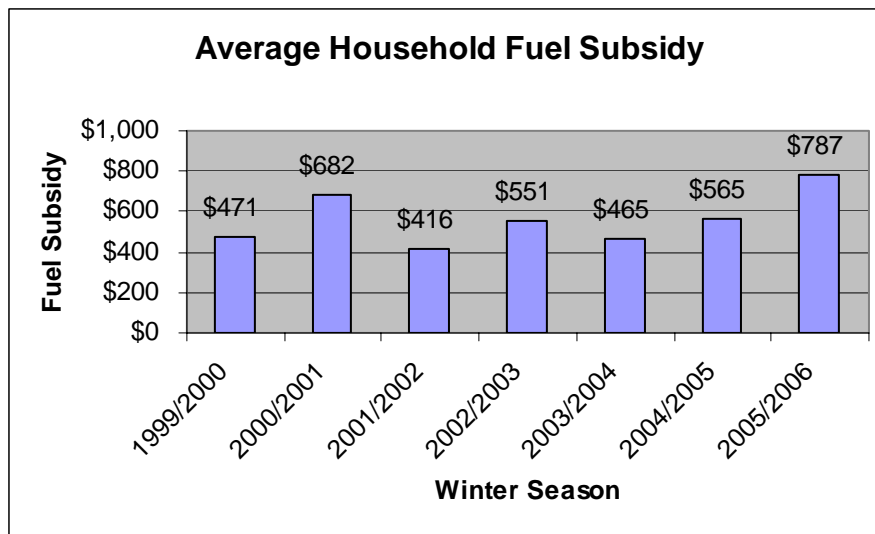
During the 2005/2006-winter season, the DER reported that Massachusetts experienced warmer than normal temperatures. Consequently, our follow-up audit found that fuel oil consumption decreased over the two-year period ending March 31, 2006. Specifically, for the 2004/2005-winter season, DER reported average fuel oil consumption of 847 gallons per household while it reported an average of 763 gallons for the 2005/2006 heating season.

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<sup>1</sup> DER's designation of warm versus cold winter seasons is based on a formula using "Heating Degree Days," a concept that enables interested parties to relate each day's temperature to the demand for fuel to heat buildings. To calculate the heating degree day, the day's average temperature is compared to 65. If the average temperature is above 65, there are no heating degree days. If the number is less than 65, the number of heating degree days is equal to the difference between 65 and the day's average temperature. For example, if the day's high temperature is 60 and the low is 40, the average temperature is 50 degrees:  $65 - 50 = 15$  heating degree days. By calculating the total heating degree days for various winter seasons, comparisons can be made regarding the severity of winter seasons.



Our follow-up audit also found that the average household fuel subsidy for the 2005/2006 heating season was \$787. This amount represents a 39% increase over the \$565 that program recipients received during the 2004/2005 heating season. The increase, which we attribute to the federal and state government’s growing investment in the fuel assistance program, to some extent helped to off-set the effects of increases in fuel prices during the 2005/2006 period, which is detailed in the following section of this report.



- b. Increases in Fuel Costs: Our prior audit found that during the two-year winter heating seasons of 2001/2002 and 2002/2003, the average cost of fuel oil increased from \$.88 to \$1.11 per gallon, or a 26% increase. Consequently, on average, out-of-pocket fuel oil expense for households participating in the Fuel Assistance Program increased from \$131 to \$725, or a 453% increase over the two-year period.

Similarly, low-income households that heated their homes with natural gas had experienced financial hardship during this time. As previously reported, the average fuel assistance subsidy increased from \$416 to \$551, or a 32% increase over the two-year period ended April 30, 2003. However, during this period, the average annual cost of natural gas per household increased from \$606 to \$1,059, or a 75% increase.

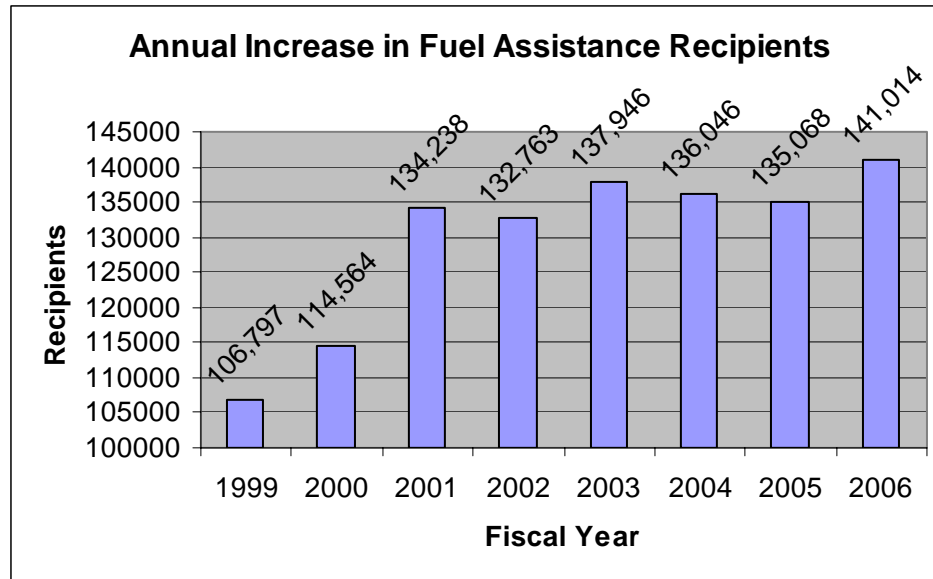
Our current audit found that fuel costs have continued to significantly increase annually, while increases in fuel subsidies for low-income families have lagged behind, making it difficult for these families to meet their monthly fuel bills. Specifically, during the 2004/2005 winter heating season, the DER reported the average price of fuel oil was \$1.97 per gallon, a 36% increase over the 2003/2004 heating oil price of \$1.45. Yet over this same two-year period, fuel assistance subsidies only increased from \$465 to \$565 per household, or a 22% increase. Consequently, on average, the out-of-pocket fuel oil expense for households participating in the Fuel Assistance Program increased from \$609 to \$1,104, or an 81% increase over the period. Also, the average price of fuel increased to \$2.42 per gallon during the 2005/2006 winter heating season, or a 23% increase over the previous year.

The following table shows average home heating oil costs for the last seven years as well as the average amounts subsidized and non-subsidized.

	<b>Average Winter Oil Cost</b>	<b>Average Subsidized Oil Cost</b>	<b>Average Non- Subsidized Oil Cost</b>	<b>Percentage of Oil Costs Subsidized</b>
2000	\$ 659	\$471	\$ 188	71.5%
2001	\$ 987	\$682	\$ 305	69.1%
2002	\$ 547	\$416	\$ 131	76.1%
2003	\$1,276	\$551	\$ 725	43.2%
2004	\$1,074	\$465	\$ 609	43.3%
2005	\$1,669	\$565	\$1,104	33.9%
2006	\$1,846	\$787	\$1,059	42.7%

- c. Increases in the Number of Program Recipients: Our prior audit found a significant increase in the number of households that received fuel assistance over the five winter seasons ending April 30, 2004. Specifically, for the winter season ended April 30, 1999, LAAs awarded program subsidies to 105,665 households. Over the next five seasons ended April 30, 2004, the number of program recipients grew significantly to 136,046 households, or a 29% increase.

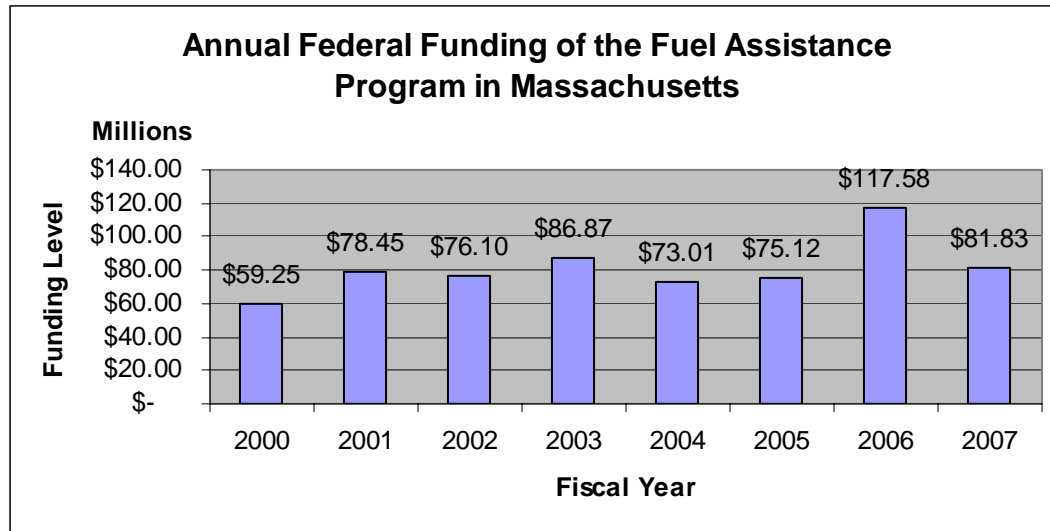
Our current audit found that for the fiscal year 2006-winter season, LAAs, through June 30, 2006, awarded fuel assistance benefits to 141,014 households, or 4,968 households more than the fiscal year 2004 winter season. Thus, it appears the number of program recipients has continued to increase across the Commonwealth. As such, the Legislature will need to continue, and, if possible, increase, funding for the Fuel Assistance Program in order to effectively serve the growing number of families requiring fuel assistance.



- d. Absence of State Funding: Our prior audit found that fluctuations in state funding for the Fuel Assistance Program directly impacted DHCD's ability to help low-income households meet their annual home heating fuel needs. State funding began in 1980, at which time the Legislature appropriated \$15 million to supplement federal expenditures on the Fuel Assistance Program. However, over time, state funding for this program diminished and ultimately ceased. In this regard, for fiscal years 1996 through 1999, the Commonwealth appropriated state funds for the program that averaged \$864,454 annually, which represents a 94% decrease in program funding from the state's original \$15 million state appropriation in 1980. For fiscal years 2000 through 2004, the Commonwealth did not appropriate any state funds for the Fuel Assistance Program, but rather relied totally upon federal funds to carry out the program's objectives.

The Commonwealth's decision to eliminate direct state funding did not significantly hinder the program's effectiveness during mild winter seasons. During these periods, households utilized far less home heating fuel to heat their homes. However, during extremely cold winter seasons, the absence of state funding created a financial hardship for families that rely upon the Fuel Assistance Program. During such cold periods, households utilize greater amounts of home heating fuel.

Our current audit found that the federal government has continued to increase funding for the fuel assistance program. For federal fiscal years 2005 and 2006, federal funding totaled approximately \$75 and \$118 million, respectively. The rising cost of home heating fuel led to the federal government's \$43 million increase for this period. The funding for federal fiscal year 2007 is \$81.1 million.



Our current audit also found that the Legislature has restored the state's funding for the Fuel Assistance Program. For fiscal years 2005 and 2006, state funding totaled \$7.5 and \$20 million respectively. DHCD officials stated that the fiscal year 2005 appropriation was fully utilized for fuel assistance benefits to low income families. Regarding the fiscal year 2006 appropriation, as of June 30, 2006, DHCD authorized LAAs to disburse the \$20 million to existing and new program participants.

Considering the skyrocketing cost of home heating fuels over the past two winter seasons and the increased number of eligible households participating in the Fuel Assistance Program, the Legislature's decision to restore funding of this program could not have come at a more appropriate time. However, the current year's budget does not provide any funding to support this program. Such state funding should continue, and when necessary be increased, to ensure that low-income families of the Commonwealth have a means to remain warm during the winter months.

### ***Recommendation***

We recommend that DHCD include within its annual budget submission to the Legislature a provision to continue funding the Fuel Assistance Program. The level of funding requested by DHCD should be based upon the economic and environmental factors discussed in this report, i.e. federal funding, fuel prices, fuel consumption, program applicants, and seasonal temperatures. At a minimum, DHCD must help ensure that the state's low-income families, who are most vulnerable to the rising costs of home heating fuel, are able to heat their homes during the winter months without giving up other basic necessities of life, e.g. food, clothing, and medications.



**Auditee's Response**

In response to our audit report, DHCD officials provided the following general comments:

*Since the prior audit, DHCD has implemented several changes that have benefited the overall administration of the program. DHCD assembled a LIHEAP Advisory Group comprised of representatives from the provider network, MassCAP, National Consumer Law Center and Massachusetts Association of Older Americans. For the past two years, the committee has met to address issues concerning funding, benefit levels, negotiations with utilities, eligibility procedures and monitoring. The LIHEAP Advisory Group has played a key role in policy decisions and defining modifications to the operational aspects of the program. The group continues to serve in an advisory capacity. This continued collaboration supports the joint efforts of DHCD and its external partners in strengthening LIHEAP and ensuring the ongoing success of this critical program. The results of this report will be shared with the committee at our next meeting on October 30, 2006.*

*Concerning economic factors, which impact the program, DHCD remains sensitive to the energy burden fuel recipients face during harsh winters and increased costs. DHCD continues to set aside a reserve each year from its federal appropriation for emergency LIHEAP needs. This enables the agencies to serve additional households with fuel assistance benefits. The reserve funds assist the agencies in supplementing their actual expenditures for program benefits that typically exceed the original contract award, particularly in extremely cold winters. Last year, several agencies received additional LIHEAP funding to meet these unanticipated costs.*

*Massachusetts continues to operate the Margin-Over-Rack (MOR) program, which provides oil dealers a set margin of thirty cents per gallon above the wholesale price, which represents a cost savings to the LIHEAP customers. In addition designed to reduce a household's burden or percentage of income spent on home heating, the utility-sponsored discount programs reduce the cost of energy through direct payment subsidies and the amount of energy used through weatherization. During fiscal year 2006, the participation of municipal utilities in energy efficiency programs was increased. Last year, the Legislature passed the HEAT bill requiring utilities to adopt an arrearage management program for eligible low-income customers. Additionally, DHCD received a federal REACH (Residential Energy Assistance Challenge) award designed to target energy assistance and minimize risks from high-energy burdens for low-income households. DHCD distributes these funds to LIHEAP agencies to provide case management to clients to move toward energy self-sufficiency and expand arrearage forgiveness programs to utility companies. As a result, the combination of these efforts and resources reduces the energy burden while minimizing arrearages and shutoffs for fuel assistance clients.*

In response to our audit result regarding program applicants' income tax documents, DHCD officials provided the following response:

*DHCD previously raised concerns regarding the recommendation to require LIHEAP agencies to obtain tax returns from all fuel assistance applicants. DHCD is still concerned about the unintended consequences of such a requirement. Currently, agencies are required to obtain income documentation that represents the four consecutive weeks prior to the application date. The potential shortcoming of relying on income tax returns*

*is verification and validity of information that may be outdated, and therefore is an unreliable source of documenting current income data. Since the program was designed, in part, to address emergency energy needs by defraying heating costs during winter months, current income data (as opposed to annual income) is most beneficial in capturing the financial circumstances at the time of application. In addition, many LIHEAP clients do not file income tax returns. Further, this may result in an undue hardship on the agencies' resources whose staff may not have the capacity to review and analyze income tax forms. We will further explore the use of tax returns for processing applications. This recommendation will be shared with the LIHEAP Advisory Group for feedback.*

### **Auditor's Reply**

We believe that the actions taken by DHCD, as detailed in its response, to enhance the administration of the LIHEAP program should serve to provide more assistance to needy citizens. However, we again urge DHCD to obtain income tax documents from program applicants. This requirement should be imposed upon all applicants who must annually file tax returns. Applicants who are unwilling to comply with this requirement should be excluded from consideration for fuel assistance benefits.

The collection of income tax documents would not prevent LAAs from identifying families with emergency energy needs. Such situations, e.g. an individual recently becoming unemployed, would be discernable through the applicant intake process, as well as DHCD's requirement that LAAs obtain income documentation from applicants that represents four consecutive weeks prior to the application date.

In addition, the collection of income tax documents would supplement, not supplant, DHCD's existing policies. While DHCD's existing policies enable LAAs to ascertain an applicant's most recent income (prior 4 weeks income), requiring applicants to submit current tax returns would enable LAAs to independently verify financial representations made by applicants during the intake process. Moreover, the collection of tax returns would help illuminate the household's other sources and amounts of income, e.g. interest, dividends, alimony, business and rental income etc. Knowledge of these other income sources is critical to calculating a household's total annual income, which combined with family size, is the basis under which LAAs award fuel assistance benefits.

Also, the OSA does not believe that utilizing applicants' tax returns to verify household income would impose a "hardship" upon agencies' resources and staff. A reasonable person would

expect low-income households to have basic, uncomplicated tax returns, since they have limited income sources and few offsetting expenses. As such, abstracting income data from specific tax line items would become a routine process for LAA intake workers. Moreover, this process would only require the most rudimentary training in order to complete. Finally, without tax returns DHCD cannot reasonably assure the Commonwealth that households have reported all sources of income, and that only low-income households most vulnerable to the high cost of home heating energy are benefiting from the program.

Finally, because the current level of funding for this year's fuel assistance program is clearly inadequate to meet program needs, the Legislature and the Governor should consider, as they did last year, appropriating additional funding in a supplemental budget to support this extremely important and essential program.

## APPENDIX I

### Local Administering Agencies

Action, Inc. 180 Main Street Gloucester, MA	Action For Boston Community Development, Inc. 178 Tremont Street Boston, MA
Berkshire Community Action Council, Inc. 1531 East Street Pittsfield, MA	Community Action, Inc. 25 Locust Street Haverhill, MA
Community Action Program Inter-City Inc. 100 Everett Avenue, No. 14 Chelsea, MA	City of Cambridge Department of Human Services 51 Inman Street Cambridge, MA
Citizens For Citizens, Inc. 264 Griffin Street Fall River, MA	Community Teamwork, Inc. 167 Dutton Street Lowell, MA
Franklin Community Action Corporation 393 Main Street Greenfield, MA	Greater Lawrence Community Action Council, Inc. 305 Essex Street Lawrence, MA
Lynn Economic Opportunity, Inc. 156 Broad Street Lynn, MA	New England Farm Workers Council, Inc. 435 Main Street Fitchburg, MA
New England Farm Workers Council, Inc. 1628 Main Street Springfield, MA	North Shore Community Action Programs, Inc. 98 Main Street Peabody, MA
People Acting In Community Endeavors, Inc. 166 Williams Street New Bedford, MA	Quincy Community Action Program, Inc. 1509 Hancock Street Quincy, MA
Self Help, Inc. 780 West Main Street Avon, MA	South Middlesex Opportunity Council, Inc. 300 Howard Street Framingham, MA
South Shore Community Action Council, Inc. 265 South Meadow Road Plymouth, MA	Tri-City Community Action Council, Inc. 110 Pleasant Street Malden, MA
Valley Opportunity Council, Inc. 300 High Street Holyoke, MA	Worcester Community Action Council, Inc. 484 Main Street Worcester, MA

## APPENDIX II

### Fuel Assistance Applications and Benefits

#### Fiscal Year 2005

<u>LAA</u>	<u>Applicants</u>	<u>Eligible Applicants</u>	<u>Ineligible Applicants</u>	<u>Applicants Served</u>	<u>Total Benefits</u>	<u>Average Benefit</u>
Action for Boston Community Development Action, Inc.	16,864	13,208	3,656	13,124	\$ 6,941,704	\$ 529
Berkshire Community Action Council, Inc.	1,823	1,530	293	1,516	851,951	562
Community Action, Inc.	5,417	4,859	558	4,838	2,895,324	598
City of Cambridge Department of Human Services	3,455	3,034	421	3,012	1,712,029	568
Community Acting Program Inter-City Inc.	2,029	1,790	239	1,783	896,635	503
Citizens For Citizens, Inc.	3,135	2,799	336	2,782	1,541,113	554
Community Teamwork, Inc.	12,014	12,021	993	11,975	7,019,509	586
Franklin Community Action Corporation	8,970	7,384	1,586	7,323	4,152,760	567
Greater Lawrence Community Action Council, Inc.	6,556	5,513	1,043	5,488	3,062,794	558
Lynn Economic Opportunity, Inc.	7,667	6,522	1,145	6,519	3,752,047	576
New England Farm Workers Council, Inc.	4,032	3,308	724	3,277	1,754,832	535
North Shore Community Action Programs, Inc.	16,654	13,683	2,971	13,561	7,690,392	567
People Acting in Community Endeavors, Inc.	3,266	2,797	469	2,763	1,515,843	549
Quincy Community Action Program, Inc.	10,285	9,202	1,083	9,117	5,463,892	599
Self-Help, Inc.	3,422	2,854	568	2,830	1,550,100	548
South Middlesex Opportunity Council, Inc.	11,525	9,491	2,034	9,448	5,329,210	564
South Shore Community Action Council, Inc.	5,625	4,180	1,445	4,160	2,201,632	529
Tri-City Community Action Council, Inc.	9,950	8,337	1,613	8,292	4,655,587	561
Valley Opportunity Council, Inc.	4,640	4,063	577	4,042	2,209,080	547
Worcester Community Action Council, Inc.	11,363	10,053	1,310	9,991	5,808,185	581
	10,316	9,293	1,023	9,227	5,364,920	581
	<u>160,008</u>	<u>135,921</u>	<u>24,087</u>	<u>135,068</u>	<u>\$ 76,369,539</u>	<u>\$ 565</u>

## APPENDIX II (Continued)

## Fuel Assistance Applications and Benefits

## Fiscal Year 2006

LAA	Applicants	Eligible Applicants	Ineligible Applicants	Applicants Served	Total Benefits	Average Benefit
Action for Boston Community Development Action, Inc.	17,504	13,442	4,062	13,318	\$ 10,322,456	\$ 775
Berkshire Community Action Council, Inc.	2,019	1,602	417	1,592	1,238,508	778
Community Action, Inc.	6,086	5,269	817	5,200	3,763,477	724
City of Cambridge Department of Human Services	3,865	3,327	538	3,274	2,632,680	804
Community Acting Program Inter-City Inc.	2,055	1,735	320	1,652	1,170,707	709
Citizens For Citizens, Inc.	3,308	2,920	388	2,881	2,333,916	810
Community Teamwork, Inc.	13,908	12,604	1,304	12,529	9,937,974	793
Franklin Community Action Corporation	10,140	8,115	2,025	7,978	6,238,417	782
Greater Lawrence Community Action Council, Inc.	7,197	6,001	1,196	5,954	4,701,686	790
Lynn Economic Opportunity, Inc.	8,217	6,828	1,389	6,251	5,008,656	801
New England Farm Workers Council, Inc.	4,427	3,507	920	3,394	2,661,695	784
North Shore Community Action Programs, Inc.	18,327	14,745	3,582	14,391	11,411,034	793
People Acting in Community Endeavors, Inc.	3,510	2,939	571	2,900	2,194,705	757
Quincy Community Action Program, Inc.	10,791	9,640	1,151	9,239	7,522,105	814
Self-Help, Inc.	3,905	2,991	914	2,841	2,146,215	755
South Middlesex Opportunity Council, Inc.	12,738	10,169	2,569	10,127	8,114,633	801
South Shore Community Action Council, Inc.	5,604	4,169	1,435	4,046	3,042,519	752
Tri-City Community Action Council, Inc.	11,071	8,496	2,575	8,440	6,713,331	795
Valley Opportunity Council, Inc.	5,307	4,387	920	4,003	3,024,761	756
Worcester Community Action Council, Inc.	12,763	11,232	1,531	11,196	8,930,677	798
	11,036	9,902	1,134	9,808	7,903,855	806
Total	<u>173,778</u>	<u>144,020</u>	<u>29,758</u>	<u>141,014</u>	<u>\$ 111,014,007</u>	<u>\$ 787</u>

## APPENDIX III

## Agency Wage Match Request

	Fiscal Year 2005		Fiscal Year 2006	
	<u>Applicants</u>	<u>Agency Match Requests</u>	<u>Applicants</u>	<u>Agency Match Requests</u>
Action for Boston Community Development Action, Inc.	16,864	-	17,504	7
Berkshire Community Action Council, Inc. Community Action, Inc.	1,823	-	2,019	16
City of Cambridge Department of Human Services	5,417	-	6,086	9
Community Acting Program Inter-City Inc.	3,455	-	3,865	9
Citizens For Citizens, Inc.	2,029	8	2,055	62
Community Teamwork, Inc.	3,135	-	3,308	9
Franklin Community Action Corporation	13,014	13	13,908	74
Greater Lawrence Community Action Council, Inc.	8,970	2	10,140	53
Lynn Economic Opportunity, Inc.	6,556	48	7,197	-
New England Farm Workers Council, Inc.	7,667	-	8,217	11
North Shore Community Action Programs, Inc.	4,032	-	4,427	24
People Acting in Community Endeavors, Inc.	16,654	473	18,327	351
Quincy Community Action Program, Inc.	3,266	5	3,510	4
Self-Help, Inc.	10,285	-	10,791	-
South Middlesex Opportunity Council, Inc.	3,422	-	3,905	2
South Shore Community Action Council, Inc.	11,525	-	12,738	4
Tri-City Community Action Council, Inc.	5,625	32	5,604	79
Valley Opportunity Council, Inc.	9,950	-	11,071	21
Worcester Community Action Council, Inc.	4,640	-	5,307	21
	11,363	-	12,763	70
	10,316	-	11,036	3
	<u>160,008</u>	<u>581</u>	<u>173,778</u>	<u>829</u>